Regional development

Smelter study forces national justification

THOSE wooing multi-national aluminium smelting interests have been left with some difficult explaining to do after the publication this month of a study looking at such a proposal in terms of the national economic interest.

Within the economic niceties of the report is a clear message - aluminium smelters in New Zealand are an extravagant and inefficient way of frittering away expensive and scarce resources.

The study was completed by Otago University economist Professor Paul van Moeseke, former economic adviser to the Belgium Government, adviser to the New Zealand Commission for the Future, and the New Zealand Government, and an internationally reputed economist.

His extensive analysis of the smelter issue created a flurry of activity in Wellington. Treasury requested copies post haste, other Government departments buried their heads in the report and ministers at the heart of the issue prepared to rebut the embarrassing side of the findings.

First up was Trade and Industry Minister Lance Adams-Schneider, who declared that a competing independent report disproved the van Moeseke report.

His statement was followed by an admission that he had neither read the van Moeseke report nor the competing "independent" report, which turned out to be one done for an aluminium smelting conglomerate by the Institute of Economic Research.

The main conclusions of the van Moeseke study are:

• A 300,000 tonne a year smelter would cost $202.8 million in imports and domestic inputs for net foreign earnings of $72.2 million, a disastrous trade efficiency of 35.6 per cent.

• Even if a smelter created 1000 permanent jobs it would cost $2.5 million a job, nearly 37 times the industrial average.

• Megajoule for megajoule, electricity at the marginal cost of 3c a unit is 44 per cent more expensive than Arabian crude delivered at Marsden Point at today's price of $28 a barrel.

• The so-called surplus power costs $900,000 a megawatt to construct and as such is an expensive and scarce resource. Anything surplus to basic requirements is thus the equivalent of bad energy planning.

van Moeseke backs up his findings with figures gleaned from New Zealand publications and international sources. No figure was used unless it could be supported from two independent sources, and in the case of disputed figures he erred in favour of a smelter.

Lance Adams-Schneider . . . admission.

Bill Birch . . . rushed into print

The crucial section of his study, at least to those interests advocating a smelter as a hefty contribution to New Zealand foreign exchange earnings, is the export efficiency.

Alumina and fluoride (mainly cyolite) imports are well documented parts of the processing. But van Moeseke puts a third import factor into perspective – the petroleum coke used for making anodes.

The petroleum distillate for this item alone would account for 9 per cent by volume of New Zealand's total petrol consumption.

Imports and foreign content in local supplies, return on capital, depreciation and electricity are detracted from the gross export value of $333.3 million to give a net foreign earning of $72.2 million. This compares with a domestic value content of $202.8 million.

"This means that, at the going rate of exchange and under the given trade structure, the same inputs would, on average, earn nearly three times as much in overseas funds if allocated to our other export activities," the study concluded.

"The excess is so huge that the project qualifies as disastrous for foreign trade," van Moeseke said.

Aluminium smelters, he said hinge on four advantages: proximity to industrial markets; availability of capital; proximity to ore sites; and cheap power.

"New Zealand has none of these."

In a general evaluation of the issue, van Moeseke suggested an aluminium smelter appeared implausible even at first sight, since it flew in the face of recent Government policies geared at efficient energy pricing.

With Government policy publicly in favour of a second smelter somewhere in the South Island, he provided an "out" and suggested a compromise may be to allow the Bluff smelter to expand to a third potline.

The study deals kindly with regional protagonists, principally Otago interests advocating the establishment of a smelter at Aramoana.

So far as income generation is concerned, van Moeseke concedes about $30 million a year would be pumped into the local economy.

So if the Government was going to proceed anyway, Professor van Moeseke said regional interests could hardly be blamed for trying to attract this expensive titbit their way.

But as he pointed out, electricity charged at anything less than 3c a unit (Comalco pays less than half that) must be subsidised by other consumers.

And since a new smelter would require one-half on New Zealand's present hydro energy for all purposes other than aluminium smelter that amounts to a substantial subsidy.

van Moeseke claims an across-the-board tariff of 2.3c a unit for all South Island consumers woud generate the income created by a smelter without the associated drawbacks.

He also tackled the much-lauded issue of secondary industry.

This, said van Moeseke should be regarded as a separate issue. If secondary aluminium processing is a feasible economic proposition in New Zealand, then it should be based on imported ingots not used to justify an otherwise totally uneconomic proposition like another smelter.

Alternatively, secondary industry could be based on the existing smelter at Tiwai Point.

Since New Zealand can only absorb about one-sixth of the Tiwai Point output now the need for a second smelter to develop secondary industry is hardly justified.

Adams-Schneider zeroed in on the secondary industry issue in his "refutation" of the van Moeseke study.

He criticised it for not accounting for "the fact that considerable downstream processing, dependent in many instances on the use of hot metal, would be tied to any new or expanded aluminium smelter capacity."

Adams-Schneider was wrong, although he was not to know it since he had not read the report, and had based his comment on an abbreviated Press Association story in the *Dominion* (which had left the reference out).

Energy Minister Bill Birch also rushed into print, singling out van Moeseke's apparent inability to appreciate the benefits of secondary industry.

Regional Development Minister Warren Cooper left a few days before announcing Government officials would make an urgent study to determine how much surplus electricity will be available in the South Island in the 1980s and how much to let go to interests like aluminium smelters.

The significance of Cooper's revelation is that Government apparently does not know how much surplus energy will be available, if any, despite the advanced stage of negotiations with various multi-nationals in an attempt to sell it in specified quantities at a specified price.

There is little doubt that van Moeseke has placed the Government in an embarrassing position.

He has produced the first public report on a smelter in terms of the national economy, not prepared for vested interests.

Government must now produce a detailed and relevant refutation of the reports findings, backed up with figures, to show where van Moeseke goes wrong.

Or, assuming Government is primarily interested in the national economic interests, it must abandon the idea of a second aluminium smelter.

The van Moeseke study has been sent to Cabinet Ministers and other Government officials. Publicly, official comments have treated the report to date in a flimsical way. Privately the Government is aware of the extent of the study and reputation of van Moeseke, and the midnight oil is being burned examining it.

Whatever the outcome, the report has, for the first time forced the issue into the arena of national economic interest where it belongs.

Volume 10, No. 15 (Issue 380) April 28, 1980 ISSN 0110-6813

NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

NATIONAL BUSINESS REVIEW

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Inside

Boeing deal: Air NZ chiefs and Govt keep details secret

by Gordon McLauchlan and Warren Berryman

NEITHER Air New Zealand nor the Government intends to disclose the terms negotiated – mainly through the American Export-Import Bank – for funds to accomplish the airline's $400 million re-equipment programme.

Air New Zealand deputy chief executive, John Wisdom said the details will never be made public, and Eximbank and other parties would keep the terms confidential.

There has been a mounting furore in the United States and Australia recently about the conditions of a $290 million Eximbank loan to newspaper magnate Rupert Murdoch to re-equip his recently acquired Ansett Airlines with Boeing jets.

Ansett's loan, at an average interest rate of 8.1 per cent, was approved by the bank's board in February, three days after Murdoch's *New York Post* endorsed Jimmy Carter for the New York presidential primaries.

Eximbank's loan to Murdoch is at interest rates 0.5 per cent below Eximbank's average, and far below the 19.75 per cent New York prime rate.

The Murdoch-Eximbank deal has become the subject of a US Senate enquiry.

Air New Zealand chief executive Morrie Davis, said Air New Zealand's loan arrangements with Eximbank were "competitive" with Murdoch's during a press conference after Government announced approval of the airline's deal to buy the Boeings.

"Rupert Murdoch has his newspaper in New York as a lever to get a good interest rate. What lever has Air New Zealand got?" Davis was asked.

"Me", he quipped.

But beyond this sort of raillery, no one will talk terms of the loan which will buy five-747 jets and one 737 from the booming Boeing Aircraft Corporation, plus a simulator for pilot training and all retooling and engineering.

Nor would anyone give specific details on the reciprocal trade deal offered by Boeing and engine suppliers General Electric as part and parcel of the aircraft buy.

A private secretary of Transport Minister Colin McLachlan said all questions on the deal had to be referred to the Prime Minister.

Rob Muldoon had previously hinted at some sort of export deal in favour of New Zealand associated with the package.

"Quite a complex arrangement", Muldoon called it. *NBR* put a set of questions to one of Muldoon's secretaries. These questions revolved around the terms of the Eximbank loan, the trade deal with the Americans, and New Zealand agents acting for Boeing and Redifon, suppliers of flight simulators, and these agents' commissions.

A message was relayed back to *NBR* from the Prime Minister's Department that Muldoon said we would have to put all our questions to Air New Zealand.

As neither Government nor Air New Zealand will talk the nominal owners of Air New Zealand – the taxpaying public – will be left in the dark while every man woman and child in this country will be saddled with a $133 debt to make up the $400 million.

The broad terms of the deal, negotiated by a publicly owned corporation, will have a marked effect on New Zealand's balance of payments situation with the floating dollar hardly buoyant against the American dollar, and at a time when "invisibles" (non-trade items) are proving a major factor in keeping the country's trading account in the red.

Boeing will provide the airframes, and General Electric is most likely to build the engines but a decision on that has not been made.

Continued on Page 5

Planners favour tax reform

by Peter V O'Brien

A PLANNING Council task force favours a broad-based, low level, retail sales tax on goods and services to replace most of the existing indirect tax provisions.

The task force, under the chairmanship of council member Don Brash, includes the proposal in an extensive report on investment in New Zealand.

The report will be published in May, and is a study of issues related to investment and growth.

Among other policy changes, the task force recommends a more rapid transition from import licensing to reliance on tariffs.

The task force recognises the need for adjustment assistance through more active employment policies and provision for specific industrial activities, but it does not believe that economic or social objectives can be secured without major changes in what has become a costly and unproductive system of protection.

The report sees restrictive licensing requirements in some export areas as affecting diversification and growth. It suggests there is room for greater flexibility in production (delicensing of meatworks and so on), in simplifying export procedures, and in providing more scope for enterprise in marketing overseas.

In an apparent direct challenge to State-owned transport corporations, the draft report calls for an independent assessment of the role of State enterprises in all forms of transport, including Air New Zealand and the Shipping Corporation in the provision of external transport services.

The task force says that, domestically, the impact of present licensing and control procedures appears most severe in transport, where competition remains limited within and between alternative transport options. It claims that capital is often poorly used and costs are frequently high, penalising all sectors of the economy.

While commending the present efforts to investigate the problems and to make further reforms, the task force considers the pace of change has been exceptionally slow.

Much higher priority should be given to a wide-ranging programme for a major reduction in the extent of licensing and control in transport.

On pricing policies, the task force has apparently linked its investigations to the council's imminent reports on regional issues.

The overall recommendation on pricing is for prices related to international parities where "tradable" goods (those which can enter international trade) are concerned, and prices reflecting the real costs of the capital involved where goods and services are for domestic markets.

The task force says more consideration should be given to appropriate regional

Continued on Page 16

Corban runs into wine test secrecy bar

by Warren Berryman

CORBAN Wines has asked the Health Department for official notification of the test results for its own wine.

The department studied 60 wines last year and discovered that the regulations had been breached in some cases.

But the Health Department kept its results secret, and wine consumers were kept in the dark about which wines offended and which did not.

All wines were suspect until proven innocent.

Alex Corban said last week he was sure his company's bag-in-a-box wines were not among the offenders because they were made from pure grape juice.

But the Health Department has not responded to Corban's request for test results.

Department assistant-director of food standards Jim Fraser said that under section 25 of the Food and Drug Act, only the person from whom the wine sample was actually procured was entitled to a copy of the test results.

It is understood that Corban had not personally supplied the sample but the actual wine vendor could receive a copy, by making arrangements through the Auckland district office of the Health Department.

The arrangement applied for all foods and beverages, Fraser said, and was intended for the protection of the manufacturer.

The Wine Institute does not favour release of any part of the Health Department's study results. It would prefer the embarrassing episode to be forgotten, now that the department has legitimised the previously illegitimate practices of watering wine.

But that still leaves Corbans, and any other winemaker who believes its wines to be above reproach – lumped among those that are suspect until proven innocent in the public eye.

The week

Tax stays on records

PRIME Minister Rob Muldoon, sees no chance of the 40 per cent sales tax on records being lifted. To the argument that records are of cultural value like books (on which no sales tax is imposed), he said: "The records that are sold in this country are not Kiri Te Kanawa's; they are about 50 to one these horrible pop groups and I'm not going to take the tax off them." (editorial — Page 6).

THE New Zealand Rugby Football Union deferred further moves to bring a South African rugby team into New Zealand until the union's next meeting on June 6. The Government indicated that although it does not approve of the tour, it would not prevent the team from entering the country.

AIR New Zealand got Government approval to replace its DC10s with five Boeing 747s which will cost over $400 million. The changeover will be made over a period of four to five years.

ONEHUNGA MP Frank Rogers suffered a stroke at the scene of a road accident in Kerikeri. He is in a serious condition at the Whangarei Base Hospital.

THE Auckland Regional Authority, after four hours of discussion, decided on a $26.7 million levy for 1980-81, cutting back $200,000 from the amount recommended by the policy and finance committee. This represents an increase of 12.1 per cent over last year.

CONCERN over the safety of some vehicles using compressed natural gas and liquified petroleum gas with poor installations prompted the Government to lay down tougher measures to control the installation and use of CNG and LPG.

MEASURES supporting the United States' call for economic and diplomatic sanctions against Iran came in the form of Britain recalling its ambassador from Teheran and Australia prohibiting further exports of DART equipment and putting an end to official assistance to trade in non-food items.

PASSPORT-free travel across the Tasman is here to stay. New Zealand and Australian Ministers of Immigration agreed to retain the present system as long as possible.

ALL Government departments have been asked for a 50 per cent saving on new policy proposals.

THE Government plans to allocate more than $734 million to hospital boards during the 1980-81 year — an increase of 19 per cent over the 1979-80 amount.

THE Government increased fees covering applications to transport licensing authorities, the Transport Licensing Appeal Authority and the Transport Charges Appeal Authority or to the Secretary of Transport to prescribe, alter, or review charges; the annual fee for transport licences; and the annual fee for carrying out certificate of fitness inspections. Fees will increase by 15 per cent except the fee for applications to the transport licensing and transport charges appeal authorities (which will go up from $20 to $100).

CELEBRATIONS in Rhodesia for the birth of Zimbabwe, echoed with goodwill with one notable exception — the absence from the celebrations of former leader Ian Smith. In his eve-of-independence address, the new man holding the reins of power, Robert Mugabe, got into the spirit of the historical moment. "The wrongs of the past must now stand forgiven and forgotten," he said. "If yesterday I fought you as an enemy, today you have become a friend and ally."

WIDESPREAD protest against the disparities of the education system between the white and coloured populations in South Africa mounted as an estimated 100,000 secondary school and university students refused to attend classes.

AN 18-year old Tongan student was arrested for deportation as an overstayer. The arrest took place while an appeal to extend his stay here was in progress.

THE Government stepped in on the side of the New Zealand Insurance Co Ltd to secure it against what is considered the beginnings of a takeover bid. Invoking part four of the Trustee Companies Act, the Government made it necessary for buyers of "substantial" shares to reveal their identity. The Act also allows directors the right to stop the registration of the transfer of the shares.

PETROCORP sought "fast track" treatment under the National Development Act to build its $130 million methanol plant in Taranaki.

A NEW 600-seat cinema costing $3.1 million to be added to a block in Auckland's Queen Street already crammed with three cinemas. To accommodate the theatre, two buildings on the site will be demolished in July with construction of the new cinema beginning in August. Kerridge-Odeon is replacing the old Embassy Theatre with the bigger complex, which will still be called the Embassy.

AN international survey listing the credit rating of countries from information derived from leading banks by the New York magazine, *Institutional Investor* put New Zealand 17th on the list. Countries with a higher credit rating than New Zealand include Australia, Britain, Japan, Switzerland (the highest rated country), and the United States. On a scale of 100, New Zealand scored 77.2. That put it in the same grouping as Hong Kong (77.7), Italy (74.7), Finland (74.4), and China (73.7).

A JOINT executive committee responsible for matters relating to the development of New Zealand's synthetic gasoline complex was formed, comprising four members nominated by the Government and four members nominated by the Mobil Oil Corporation.

HIGH Court judge Mr Justice Mahon will be looking into the Air New Zealand DC10 crash in the Antarctic last year as a one-man royal commission of inquiry.

DAVID Gamble, of the Trade and Industry Department, was appointed as the Consul-General in Los Angeles.

RON Milland was re-appointed chairman of the Rural Banking and Finance Corporation. Sir William Dunlop was re-appointed a Director of the corporation.

ERNEST Craig was appointed as the Government nominee on the Dairy Board.

T S CRADOCK was appointed the second lay member of the Motor Vehicle Dealers Licensing Board.

Correction

THE Human Rights Commission will seek $9000 for loss of earnings and $800 for injured feelings for each of the women in the Southland case cited in our story headed "Human Rights create turbulence in employment" (*NBR*, April 21). The figure of $900 in our report was incorrect.

The week ahead

MONDAY: Commission of the European Communities' delegation led by Wilhelm Haferkamp, vice president of the commission and Commissioner for External Relations, here for informal consultations with the Government.

Talk titled "Management training in the public service? Where is it going in the 1980s?," presented by the Assistant Commissioner of the State Services Commission, in Wellington.

TUESDAY: Rheem New Zealand Ltd annual meeting in Wellington.

Golden Bay Cement Company Ltd annual general meeting in Wellington.

Ivon Watkins-Dow annual general meeting.

Selby Shoe Company annual general meeting.

WEDNESDAY: Bing Harris and Co Ltd annual general meeting in Wellington.

Economic indicators

THE figure for retail sales for February were $581.7 million, a decrease of 0.1 per cent over the January figure, and an increase of 29.4 per cent over the sales for February 1979.

Exchange rates

As at April 23 1980 $1NZ is worth:

Australia	.8664
Britain	.4235
Canada	1.1212
Fiji	.8004
Japan	235.37
West Germany	1.7471
United States	.9476
Austria	12.48
Belgium	28.08
China	1.4343
Denmark	5.4783
France	4.0670
Greece	39.79
Hong Kong	4.6865
India	7.5440
Italy	820.99
Malaysia	2.1471
Netherlands	1.9246
Tahiti	74.14
Norway	4.7354
Pakistan	9.2013
Portugal	47.37
Singapore	2.0877
South Africa	.7579
Spain	67.38
Sri Lanka	on appl
Sweden	4.1059
Switzerland	1.6322
Western Samoa	.8853

The week

Lending funds down and demand decreasing

by Rae Mazengarb

THE growth rate of funds available for lending this year was likely to be less than the current rate of inflation, Reserve Bank Governor Ray White said last week.

But the overall demand for loan money was expected to be less, in real terms, than last year. White told the Association of Superannuation Funds in Wellington.

Monetary conditions would be tight, but would not impair the efficiency of business.

"This is not to say, that some firms will not experience cash flow difficulties," he said.

"In particular, small and medium-sized businesses may be in trouble because they cannot easily increase either their loan or equity capital to replace funds paid out by way of interest and by way of false profits derived from historic cost accounts".

He said that tight monetary conditions merely highlighted problems whose causes were firmly rooted in an adherence to forms of lending, accounting and taxation which had been outmoded by inflation.

Outlining the monetary conditions likely to prevail this year, White predicted a reversal of the pattern of savings which has been evident since the reflationary fiscal measures of 1977-78.

Increases in after tax incomes have not been fully spent but held in savings accounts and the like. This year it is expected that these temporary excess savings will be spent and people's holding of money in short term financial assets will diminish to levels nearer those usually held, he said.

The process was already underway.

Funds available for lending had been growing less quickly as we entered the decade and the rate of increase in private sector credit fell, White said.

Funds available for lending are likely to increase at a lower rate than inflation but the demand for housing for example, is expected to be weak.

Costs of financing stock will increase the demand for working capital (offset to a degree by falling volumes in inventories as the year progresses).

There will be a strong demand for loan money for farm purchases from those looking around for taxation savings.

Another factor will be the high levels of overseas interest rates which will cause exporters, importers and others who would normally borrow offshore to seek capital onshore — at least in the short term.

On inflation, White said the damage had to be attacked on two fronts. Inflation had to be reduced, and the distortions and inefficiencies which resulted from the use of a dollar of uncertain value in financial contracts — and as the basis for taxation — had to be avoided.

The main attack on inflation had to come in the area of reducing unit costs. This could be achieved if wage settlements had regard to the ability of the employer to pay, and the level of competition able to give the greatest share of the market to the firms with the lowest costs, White said.

Workers, management and investors alike should be given a clear understanding of the firms production and sales goals by keeping adequate financial records. "In other words inflation accounting must be accepted." White said.

The workforce had to be given more information about the business's affairs; managers must hold themselves accountable to staff just as to shareholders; and workers have to recognise that their real incomes depend on the overall efficiency of the business.

"The Government's contribution to the reduction of unit costs should be by reducing general taxation — whether direct or indirect — to the maximum extent possible. Almost all taxation adds to unit costs of production," White said.

Government and local authority controls should be reduced to a minimum he said.

"Licensing in all its forms is a great impediment to ... competition and should be avoided unless the justification for the control outweighs the impediment to competition," he said.

White pointed out that we cannot blame overseas prices for our inflation, since we can, to a reasonable degree, insulate ourselves.

"If New Zealand unit costs are reduced below the level of inflation in the countries with which we trade, the present exchange rate regime would result in revaluations which would offset the effect on New Zealand prices of general overseas price increases".

Securitibank litigants given deadline

by Warren Berryman

SECURITIBANK liquidator Harold Goodman has been given a May 30 deadline by Mr Justice Barker to set out the ways and means by which he intends suing Securitibank shareholders and directors.

By that date the Securitibank Investors Consortium, whose sole purpose has been to get Securitibank creditors' money back, must also have its plan of attack in order.

After years of investigation and legal actions, the consortium is almost out of money and wants the liquidator to use creditors' funds to join or take over its action initiated through the Auckland Paraplegic and Physically Disabled Association Inc.

By May 30, the consortium must serve a motion asking the liquidator to take over or pay for its actions under section 364 of the Companies Act and its common law actions and specify the legal grounds under which this could be done.

At the same time the liquidator must state which of the consortium's actions he wishes to persue and against whom.

The court will then decide if the liquidator has the power to take over any, or all, of those actions against the Securitibank shareholders and directors.

New legal ground will be broken to answer most of the questions. The liquidator must, it would seem, find a precedent for taking a common law action on behalf of all creditors against shareholders and/or directors.

The $50 million claim against Securitibank shareholders and directors iniated by the paraplegics, if successful, will alter the entire concept of a limited liability company — it seeks redress far beyond the nominal capital of Securitibank.

Gas Corp's petrochemical recipe "trade secret"

COMPANIES in New Zealand may have to reveal all chemicals used in their processes if they want to discharge wastes into natural water. That could be the result of the hearing into appeals over the plan to build a 70-million-dollar ammonia-urea plant at Kapuni.

Judge W J M Treadwell ruled at a tribunal hearing of appeals against the erection of the plant on a 32ha site, opposite the present NGC-Shell-BP-Todd complex, that firms making chemicals which end up in natural water should be prepared to reveal what was in them.

But, the Natural Gas Corporation maintains that the chemicals used to make ammonia and urea are a trade secret.

The actual components, it says, would be revealed only if a secrecy agreement was signed between the NGC and the Taranaki Catchment Commission.

That view was contested by the Environmental Defence Society, which argues no disposal rights should be granted until every chemical used in processing is made public.

The Natural Gas Corporation can spray irrigate-treated effluent on to its site all year and release uncontaminated stormwater and minor amounts of treated waste into the nearby Kapuni stream.

The company claims the term of these rights – five years – is too short. It is also seeking approval to spray irrigate on land for nine months of the year, releasing the treated wastes from the plant into the stream for the remaining three months.

The Taranaki Catchment Commission, the Ministry of Agriculture and Fisheries and the EDS oppose this.

The EDS maintains that the granting of the rights is *ultra vires* because not all the details have been made public.

The TCC and MAF claim the present rights should not be extended.

Neither the TCC nor MAF want to see any treated effluent go into one of southern Taranaki's main trout streams because this, they say, could be harmful, if not lethal, to aquatic life.

The second appeal, before the No 2 division of the planning tribunal, headed by Judge Treadwell and comprising J S McKenzie, H L Riley, JP, and R E Hermans, concerns the move by the Waimate West County Council to re-zone rural land into industrial to allow the erection of the ammonia-urea plant.

This is contested by local farmer Jack Smith (who will be the next door neighbour of the plant) and the EDS.

The society claims this would not be a wise use of New Zealand's natural resources and that no ammonia-urea plant should be erected at all. But if there is to be one, the EDS says, it should not be sited at Kapuni but at Tikorangi, in north Taranaki, as part of the Petrocorp planned petrochemical complex.

The EDS case has been objected to by the NGC, which claims that, basically, it contains no evidence but consists mainly of second-hand unsourced opinion.

The hearings – which began on April 14 – are expected to continue for at least another week.

The tribunal has reserved its decision on the water right section and is expected to do the same over the re-zoning issue.

Main feature of the hearing has been the general agreement by all parties on the need for further studies into the actual operation of the plant and its effects on the environment.

Air NZ keeps Boeing details confidential

Continued from Page 1

The Boeing representative in New Zealand is Todd Brothers Ltd. This company's director in charge of aviation matters is Stan Mann, well known as a Parliamentary lobbyist.

Mann said that since the Lockheed scandal in the United States the American Securities Exchange Commission did not allow American plane manufacturers to use agents as such. The term now in use was "consultant", he said.

Mann said consultants were sometimes on a retainer and sometimes received payment on a per-plane-sold basis. He would not say how much he made from the Boeing sales to Air New Zealand beyond saying: "It was not enough".

Mann added that Boeing would help Air New Zealand sell its DC10s.

The company favoured to win the contract to provide flight simulators is Redifon, manufacturer of the Boeing 737 simulator in Christchurch. The cost of a 747 simulator is expected to be somewhere around $5 million.

New Zealand agents for Redifon is Flight and Field Services Ltd, among whose directors is Fred Dobbs, longtime friend of Rob Muldoon and Morrie Davis, and chief executive of Dobbs Wiggans McCann Erickson, Air New Zealand's advertising agency.

Dobbs Wiggans handles advertising for the Ministry of Transport, Railways, State Insurance, and the Public Trust Office, and a sister company under the same parent company, Interpublic, handles the Meat Board account in London.

Dobbs is a Government appointee to the Meat Board.

When another director of Flight and Field Services, "Digger" Harding, was asked by *NBR* about agents' commissions on the flight simulator, he said: "I'm not prepared to discuss this with you. I'm only interested in doing business with Redifon and Air New Zealand."

Air New Zealand says the deals with Boeing and with the manufacturers of other components of the package are being negotiated directly with the companies concerned without the involvement of brokers or agents.

It is understood that normally the degree of local involvement in such deals would dictate whether a local agent received a percentage commission or worked on his retainer.

Neither Air New Zealand nor Government were prepared to discuss the details of the reciprocal trade deal established through Boeing and General Electric.

Presumably it will fall under the category known in the United States as an "offset purchase deal". This sort of deal, while not unusual, has come under some flak in the United States

Offset purchase deals have their origin back in 1975-76 when Northrop and General Electric sold $500 million worth of F-5 fighter planes to the Swiss Government. As part and parcel of the deal Northrop and General Electric had to find markets for some $100 million worth of Swiss goods – and credit these sales to the plane account.

The American sellers had to establish that they had achieved additional sales of Swiss goods through market entre's or sales efforts to satisfy the Swiss.

Washington looked with some disfavour on the deal. But similar deals followed, mostly for military, not civil aircraft.

A mystery remains as to which New Zealand exports will be handed this entre into the American market and earn the export incentives through the Air New Zealand deal.

Meanwhile no deal has been clinched yet for the sale of the DC-10s which cost around $100 million only seven years ago, when fuel cost was a minor factor in airline economics. The plan is to sell a couple of them early next year and then phase out the remainder as the 747s come into service and buyers can be found.

The airline is facing a bumpy ride between now and the time the first 747 goes into commercial service with the familiar turquoise koru livery next May. It will be followed soon afterwards by two others with the last two of the package due in 1982.

Davis says he expects the 747 to carry Air New Zealand towards the end of the century.

Airline management will not comment on recurring rumours that it is operating at a loss of $2 million a month.

Notoriously close-lipped about its finances, the management acknowledges it came out of the 1979-80 financial year "in a loss situation", and that the first half of a year is traditionally the worst half with profitability building up with traffic in the second half.

The company is facing the same problems plaguing airlines recently in America (where financial disclosure comes fast and frankly at the end of each month, or at least, each quarter)

Fuel prices there have been rocketing month by month but the mechanism for passing these costs through to fares has been arthritic. As one Air New Zealand spokesman said: "You can lose a lot of money in a few months if you can't adjust fares to costs."

American Airlines is paying $11 million more each day for aviation fuel than in 1979. The authoritative American trade newsletter, *Aviation Daily*, reports that airlines in the United States used 1 million gallons less fuel in January and February 1980, than in the same period of 1979 and paid $700 million more for it.

Air New Zealand concedes it is not expecting high profitability through to the end of the current financial year. But if it has in fact been losing $2 million a month during the end of the season with a heavy passenger traffic flow, then it will take expert management and careful control to keep out of serious financial trouble by May 1981.

The staff level, at 8700, is about the same as at the time of the takeover of NAC. (New Zealand's biggest private company, NZ Forest Products, and all its subsidiaries, had a staff of 8580 at the end of March.)

In a bid to trim this number, staff "approaching retirement" have been invited to talk to management about going out early with special severance pay and superannuation arrangements in cases where they would not need to be replaced.

But it is expected this will cut down staff establishment by only about 60.

Other factors which may compound Air New Zealand's troubles by mitigating against growth of passenger traffic into and out of New Zealand are:

- Possible budgetry action by the Government to discourage New Zealanders travelling abroad and spending overseas exchange:

- Likely steep increases in fares as a result of fuel price jumps, which will discourage northern hemisphere holidaymakers from coming here because even now a high proportion of their available money goes in getting here:

- The growing cost of staying in New Zealand on holiday with inflation outstripping the rate in most of the nations we draw tourists from.

Comment

Editorial

MOST Governments undoubtedly strive to please all of the people all of the time, Deputy Finance Minister Hugh Templeton told the Recording Industry Association in June last year. "And if any of you know of one that has succeeded I would be pleased to hear from you. . ." he said. Obviously, none could suggest a recipe.

Templeton had then been considering the industry's submission on the application of sales tax to sound recordings and its claims that sound recordings are as much a culture medium as books, sheet music and cinematographic film. Those submissions had put the human and social issues involved in a new light, he said, but "whatever empathy and sympathy I have as a private individual cannot always manifest itself as desired policy under either of my ministerial portfolios."

The Government's stated policy, of course, is to reduce direct taxes and increase indirect taxes. Templeton spelled it out to the association: the Government was aware that the increasing burdens of the less discriminate "direct" taxation might eventually be self-defeating in that there was less incentive to be productive or to strive for the rewards of that productivity. But indirect taxation offered a greater element of choice and did allow the productive and the thrifty to achieve their personal goals more readily.

A few months later, Prime Minister Rob Muldoon discussed tax policy in a speech to the Institute of Directors. "Sometimes adherence to our stated policy does not find ready acceptance, even though, in principle, many people would subscribe to it," he said. Even the National Party's annual conference that year had "struck a note of very low credibility" when faced with a remit on the subject. The conference had unanimously resolved to carry the first part of the remit (on reducing direct taxes) but defeated the second part (on increasing indirect taxes).

That didn't alter Government policy, Muldoon pointed out. But it did underline "the difficulty that people have in accepting any increase in taxes, direct or indirect".

Muldoon said then he would have thought "that it was entirely logical, in times such as this, to put some extra sales tax on boats and caravans, in order to make it easier to reduce direct taxes, but there have been very few voices raised in favour of that move." The record industry, similarly, remains unconvinced that it should be subjected to sales taxes.

But records obviously rank high as a discretionary spending item. And recording companies have not proven that more records would be sold if the sales tax were removed. Any drop in sales could have resulted as much from the slump in economic conditions as from a higher sales price. Further, the Government must have made its own calculations about the effects of the tax before imposing it. After all, if it destroyed the market, it would reap no income.

Last Thursday week, Muldoon emerged from a caucus meeting to say there would be no relief for the record industry. Indeed, the industry's newspaper advertising campaign which drew attention to the absurdity of Kiri te Kanawa albums being subjected to a sales tax while publications like *Playboy* and *Penthouse* were not, had only drawn the Government's attention to the potential for more revenue: so why not slap tax on the girlie magazines, too?

But next day, like Governments trying to be all things to all men, Templeton met record industry representatives and sent them away with high hopes. He agreed to review the level of tax, arguing that records — while not essential items — did have a "cultural element" that could be expanded on in terms of employment and exports. The question would be looked at in the context of present Budget discussions.

Muldoon's rejoinder: "With the greatest respect to my good friend Hugh Templeton, if he thinks he is going to get that tax taken off records he's got another think coming," he told a National Party fund-raising dinner in Invercargill. "The records that are sold in this country are not Kiri te Kanawa's; they are about 50 to one these horrible pop groups and I'm not going to take the tax off them."

The only whiff of hope was Muldoon's concession that he had "not written off any change entirely," and that an inquiry into the tax — now under way — "might turn up some angle worth considering."

The question, as far as Muldoon is concerned, is simple: whether records can be designated cultural or educational. And in his view: ". . . they are not."

As he said last Monday, he and the Minister of Customs had views that did not "entirely coincide" on the matter. He reaffirmed then that if there were to be tax cuts, they would be cuts on income tax.

The open rift between Muldoon and his colleague was as enlightening for what it suggests about Templeton's political stocks as for its pointers to a recording industry anxious to make headway in the export market.

It wasn't the first time Templeton had been publicly chided. In April last year, as Minister of Broadcasting, he stuck his neck out at a time when Muldoon was openly musing on the future of the Broadcasting Corporation's television operations (and suggested, among other things, selling off a channel to private enterprise). Templeton came to the defence of Television Two, arguing — in a speech in Dunedin — that the channel's future lay in an emphasis on educational matters and possible lease to private enterprise at weekends. One option under study was the introduction of education programmes at primary and pre-school levels, followed by entertainment later in the evening (an idea, indeed, which had been highlighted in the party's manifesto).

But Muldoon declared his surprise. "It is a new one to me," he said. "I would not think we have got much support for that in the short term." And he doubted that while television was trying to balance its budget, it would have much room "to put in anything by way of gratuitous programming for education."

Templeton's public support of an increase in the television licence fee similarly ended in defeat to a Prime Minister with his own firm ideas about television financing.

Templeton doesn't lose all his battles. He went out to bat for the potters and other artists who were hit by sales taxes. Eventually those taxes were removed.

In the lead-up to last year's Budget, Templeton was among the more-market Ministers whose reformist thinking was given expression in the flexible exchange rates and less rigid import licensing regime.

Before 1978, Templeton had the reputation of being the only Minister apart from Jim Bolger to question Muldoon in Cabinet. These days, the questioning is said to come from Templeton and Bolger and others further down in the Cabinet pecking order, but now the ginger group is led by Derek Quigley.

Templeton had boldly declared his stance on economic union with Australia, long before the recent talks between Muldoon and Australian Prime Minister Malcolm Fraser. But he has been more restrained in public in recent months (although privately he remains enthusiastic about economic union). Muldoon has been more cautious about the idea, and his options remain open (if only just).

Once regarded as a front-runner for the party's deputy leadership — and a good bet as a future leader — Templeton's star has lost its shine since the 1978 general election brought a spate of bright new boys into the political arena. At last year's party conference, Muldoon described him as "a fairly remarkable man" and a person of "great ability". "His previous foreign affairs experience and tendency to use three words where one would do had gradually been squeezed out of him," Muldoon said. Now that Templeton's vocabulary has been doctored to the PM's satisfaction, it looks like the squeeze is being applied to the Minister's credibility.

Rob Edlin

Without word of a lie

Look who's back in business. . .

ONCE you've had ink on your fingers, it's difficult to stay away from the newspaper business. So it's not surprising to see that Jim Carney – whose recent departure as group general manager at INL generated much speculation in newspaper circles – isn't spending all of his early retirement on the golf course.

Carney popped up the other day as one of the judges at the Pacific Area Newspaper Production Association's annual conference in Christchurch. His choice for the Tasman Pulp and Paper Award for technical excellence of reproduction by daily newspapers was neither Wellington's *Post* nor *Dominion*, but Singapore's *Straits Times* (which picked up three of the four awards).

Amateur gymnastics

AMATEUR sportsmen, to retain that status, must keep their commercial virginity intact.

Thus it was with some surprise that a TVNZ production team was asked for $100 for the appearance of runner Rod Dixon (a figure apparently whittled down a bit, although in the end Dixon did not appear).

And Dixon's commercial virginity? Well, Dixon said he did not ask for $100 to appear. Rod Dixon Sports Motifs Ltd did.

Rod Dixon Sports Motifs is 51 per cent owned by Rod Dixon. Rod Dixon Sports Motifs also hires out Rod Dixon's services to Auckland shop Athletic Attic.

Dixon said he felt the approach by TVNZ was one for professional and promotional consultation, and the professional consultation sought would best be provided by his company, Rod Dixon Sports Motifs, which specialises in the field of consultancy and promotion of sport, recreation, and youth in sport.

No such person as Rod Dixon would have appeared on TV, Dixon said. It would have been the company represented.

"This is the way amateurs have to conduct themselves in the business world to survive," Dixon said.

"I'm an amateur on the track and change back to a professional off the track", he said (a sort of a Superman act without the cover of a phone booth).

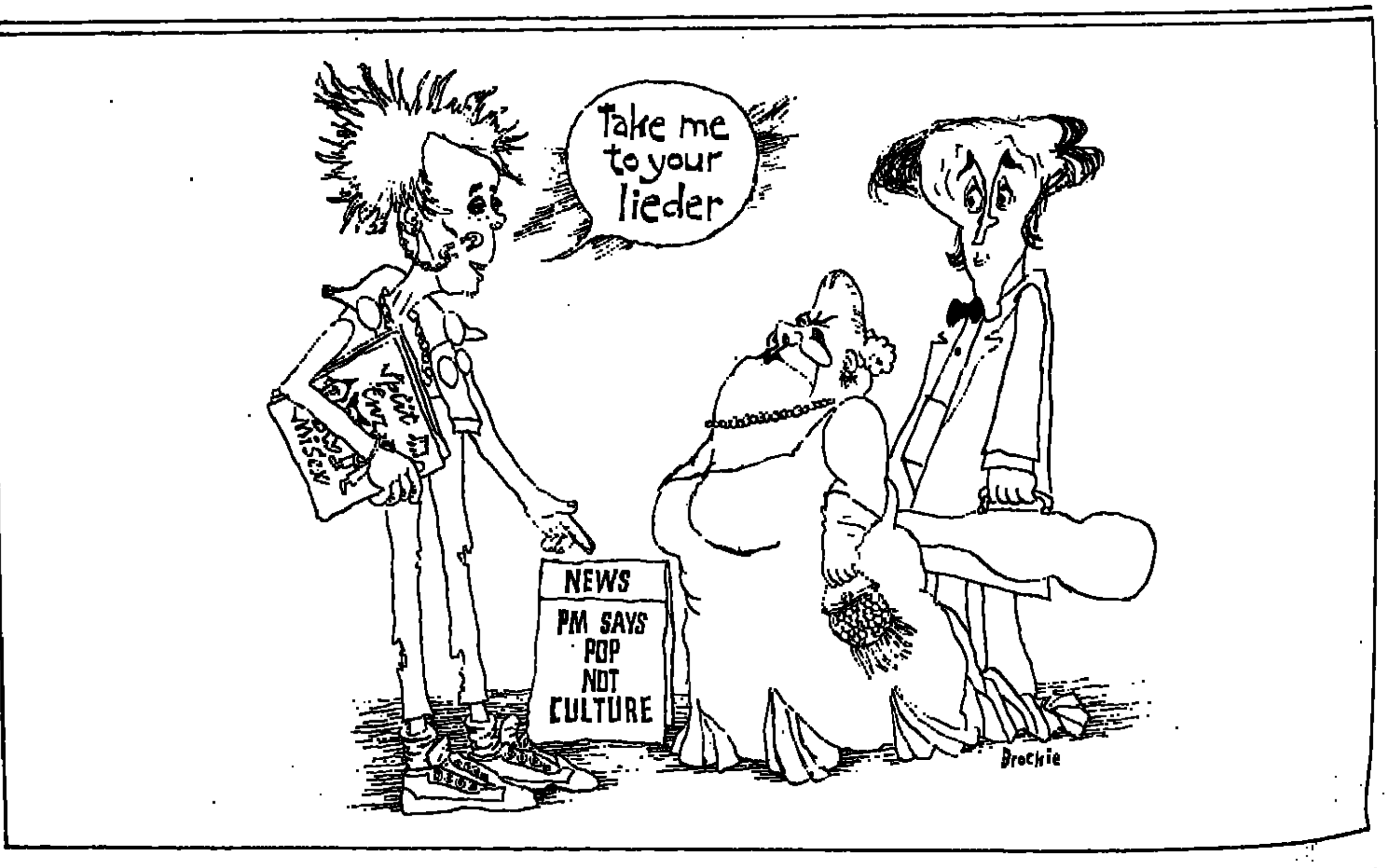
Zeroing in on old stationery stocks

THE old Television One logo appeared in the corner of an envelope received by one of our correspondents the other day. And perhaps as a somewhat perfunctory concession to the existence of Television New Zealand there was some scribbling over the "O" in "One".

It's good to see they're trying to use up the old stationery stocks. But they've got a long way to go.

An acquaintance who recently left the corporation's employ found stacks of paper and envelopes bearing the initials NZBC while clearing out the office.

Brockie's view



NATIONAL BUSINESS REVIEW

Published by Fourth Estate Newspapers Ltd.
Managing Director: Reg Birchfield
Marketing Director: Ian F. Grant
General Manager/Accountant: Stephen Underwood
Editorial:
Editor: Rob Edlin
Production: Ralph Green, Ann Taylor

News & Features:
Colin James, John Draper, Rae Mazengarb, Belinda Gillespie, Stephen Bell, Jack Hodder.
Contributing:
Finance: Peter V O'Brien
Auckland Bureau:
Warren Berryman
Advertising Sales:
Manager: Paul A C.S. Loh
Promotions:
Manager: Kathi Scott

Circulation:
Manager: Jan Chee
Auckland Office:
2nd Floor, Leviens Building
Cnr Airedale & St Paul Streets, Auckland
Tel: 799-304
Wellington Head Office:
Fourth Estate Newspapers Ltd
16 Blair Street, Wellington N.Z.
P.O. Box 9344
Tel: 736-876
Cables: Natbus

National Business Review incorporates *Admark* and is a registered publication weekly (except for last week December and first two weeks January).
Typeset and composed by Compulype Services Ltd, Wellington. Printed by R. Lucas & Son Ltd, 118 Kapiti Road, Paraparaumu.

Single copies: 75 cents
Subscription rate: NZ$25.00
Member ABC (Audit Bureau of Circulations)

Comment

Economic reshuffle brings need for co-operation

by Ted Spraggon

HOW do the majority of New Zealanders regard Australians?

We tend to acknowledge a common interest in rugby, racing and wartime associations, and exchange jokes about Kings Cross, poker machines and earthquakes, but there has been a significant change in public attitudes on both sides of the Tasman in the last few years.

Recent public opinion polls in New Zealand show that as many as 90 per cent favour some form of closer economic ties, and 16 per cent are prepared to go as far as some form of political association. A *Dominion* editorial recently considered that some form of economic union was a probability and essential.

How do Australians regard us? A poll taken there a few months ago suggested similar interest – in fact one-third favoured union between us. *The Australian* claimed in November that it is only a question of "when", not "if".

Indeed, public opinion – contrary to the customary trend – appears to be somewhat ahead of official New Zealand and Australian thinking.

Yet at Government level, on both sides of the Tasman, study groups of senior officials are looking at all the implications of a much closer economic association. The subject is very much alive and serious discussions are taking place.

Both countries are asking themselves whether the time has not arrived when, for mutual interest, there should be positive steps toward a closer partnership.

Fourteen years ago New Zealand and Australia signed the New Zealand-Australia Free Trade Agreement. New Zealand imports from Australia are static at about 22 per cent of total imports, and exports to Australia are 11.5 per cent of total exports.

Both Governments now agree that Nafta has served its purpose and that new initiatives are needed.

The first move was taken early in 1978, when Brian Talboys met Malcolm Fraser in Canberra. It was after this that specific business groups were set up there and in New Zealand to produce recommendations for the future.

Then in April last year, Australia's Deputy Prime Minister, Doug Anthony, came to Wellington and discussed the issue with Rob Muldoon.

Deputy Finance Minister, Hugh Templeton attended the UN conference on trade and development in Manila last year, and Fraser confirmed his enthusiasm. He appointed Vic Garland, Minister for Special Trade Representations, to oversee Australia's role in any negotiations.

The possible alternatives are:

- A free trade agreement. This would allow free access by each country to the other's internal market, at the same time allowing each to pursue individual policies regarding trade with other nations;
- A customs union, which would mean that both countries would have a common policy toward imports from other nations, as well as free trade between each other.

Political union is further off, but there is growing support for it in both countries. (In a write-in poll conducted by *NZ Truth*, 70 per cent of readers responses favoured it.)

It is interesting to recall that New Zealand was accorded the status of a colony in 1840, but before that it was administered from Sydney as part of New South Wales; provision was made under section 121 of the Australian Constitution for its admission as a new state, simply by Act of Federal Parliament.

Needless to say a major problem would be the differing philosophies of governments.

We have 3.1 million people (75 per cent of whom live in the North Island). Australia has 13.5 million.

The success of any move toward political union would depend upon the agreement of like-minded political parties. Liberals in Canberra would have to see eye to eye with Nationals here and Australian Labour with our Labour Party. (a possible complicating factor could be our Maori brethren, who might well be concerned about the alleged poor treatment of Aboriginals over there.)

Australians and New Zealanders have more in common than any other two peoples that I know of . . .

The 1970s have served to give us a sharp awakening to the realities of a world-wide trading system which has gone through rapid (and sometimes traumatic) changes. It is easy to find fault with one or other of the Nafta partners and make accusations that the spirit of Nafta has been flouted, but the truth is that each has had to contend with complex changes in the external environment which have imposed constraints on economic growth.

Further, we have been partially displaced from the cosy protected club of industrial Western nations. New relationships are being forged with the fast-growing, newly industrialised countries of Asia. Indeed this pace of change compels us to ask whether we should "go it alone" or "do it together".

I am confident that Australia and New Zealand will move closer together in the coming decade.

I would not attempt to define the precise nature of our future relationship because it hinges so much on the political will of those in power, but I suggest this possible profile:

(1) 50 per cent of Australia's trade and maybe 40 per cent of New Zealand's could be with the countries of Asia in the future. We could well decide that it would be to our mutual interest to discuss the implications of our increasing contacts and relationships with the governments and peoples of those countries with whom we will become increasingly economically interdependent. (For example, if our relations with Japan and the Asean countries are to evolve on somewhat parallel paths, surely there is scope to bring our separate agreements into some form of co-operative association.)

(2) I believe that there will be much more discussion between us on the effects of the energy crisis, and where the development of our natural resources will place us in a global context in the 1980s.

Notwithstanding the disparity in growth, there are similarities which both New Zealand and Australia have developed. I believe this will continue.

We will each become energy-rich countries as world supplies dwindle and therefore we will become attractive bases for energy-intensive industries.

In New Zealand we have:

- One of the largest single reservoirs of natural gas in the world, estimated at 262 billion cubic metres;
- An agricultural base which has been estimated to provide 10 per cent of New Zealand's liquid fuels by 1990;
- Reserves of lignite which total 5 billion tonnes (a huge potential source of liquid fuel);
- A large surplus of renewable hydro-electricity;
- And the distinct possibility of striking oil.

Australia has:

- Even more massive reserves of lignite (about 36 billion tonnes);
- About 40 billion tonnes of black coal
- Twenty per cent of the world's high grade uranium reserves;
- And oil in significant quantity

It is not unlikely that Australia and New Zealand could be net exporters of energy and energy-intensive products; the scope for co-operation and combined strength is indeed attractive.

(3) It is probable that both countries will tend to compete on world markets in their manufacturing industries. This may require rationalisation, and could result in a painful shake-out for some inefficient industries.

The question is often asked: "What's in it for Australia?" I doubt if there will be any initial windfall for either country, but there are many other groupings around the world that have found it beneficial to link up. Yet here we are, so close together, and we have reached a sort of plateau in our trade relations.

If we are to tackle the increasingly competitive world trade scene, then it makes good sense that we should do it together.

(4) In this coming decade there should be greater scope for co-ordinating exports of agricultural products, both raw and processed, to the new growth economies of Asia and the Middle East. These areas are deficient in food resources and will certainly increase consumption as their rising incomes permit.

It seems likely that we will continue to suffer from restrictions on agricultural trade with the major industrial nations. It seems sensible to me that our respective producer marketing organisations should combine to market primary products.

(5) Muldoon has mentioned the figure of $5 billion to be invested in New Zealand's energy and natural resources – an estimated figure of from $15 to $30 billion will be spent on resource-based developments in Australia in this decade. Both countries should surely compare notes in doing so.

There are many areas apart from the purely economic which call for closer consultation. I refer to the Antarctic, law of the sea, defence, fishing zones, and the welfare of our South Pacific neighbours which should be of major concern to us both.

The 1980s will be a decade of considerable international economical readjustment, with more diversified centres of economic power and trade.

This will create more demands for co-operation than have existed in the past – and by that I don't mean merely consideration of a free trade area, customs union or a common market, or even on the ways and means of handling trade expansion, but a much broader concept that calls for closer identification of our common interests, and a determined effort to marshall our undoubted strengths internationally for our common benefit.

Government officials on each side of the Tasman will undoubtedly analyse and try to predict the probable results of any new trading proposals, but if a closer relationship is to evolve, it may well spring not only from Government initiatives but from the desire of our respective peoples to develop a closer trans-Tasman partnership in the traditional spirit of Anzac.

Ted Spraggon is managing director of John P Young management consultants and is president of the Australia New Zealand Association. He gave this address the other day to the Wellington South Rotary Club.

Wine lobbying turns the illegal into legal

by Frank Thorpy

INTENSE lobbying by the Wine Institute has resulted in practically all its recommendations being incorporated in the new wine regulations. The illegal has become the legal. Water, which has been added surreptitiously or openly for more than 80 years without the Health Department ever initiating a prosecution is now permitted, thus giving New Zealand an unenviable place among the leading wine countries of the world.

The new regulations state that the amount of wine should be at least 80 per cent of the volume of the finished wine. It details the additives permitted to make up the other 20 per cent — more than 60 different kinds, including water, sugar, oak chips and so on.

Dessert wine – sherry, port, madeira and so on – may contain only 60 per cent of grape juice. Sherry drinkers beware.

Under the labelling of wine clause in the regulation, the words "premium" or "private bin" may not be used unless the wine contains at least 95 per cent by volume of grape juice.

Similarly, any wine labelled with the name of the grape variety, such as Chardonnay, Cabernet Sauvignon, Muller Thurgau and so on, must contain 95 per cent of grape juice, with 75 per cent of the grape juice from the variety named. This is an improvement and will put winemakers on their mettle as the provisions date from September next.

Lobbyists for the addition of water in wine have argued that it is permitted in Germany and in the United States. But these arguments need to be qualified.

Water was permitted to be added in certain quantities and under certain conditions (no more than 10 per cent by volume) to the lowest level of German wines which, in theory, were not exported. Under pressure from its EEC partners, Germany has, by law, recently ceased this practice, though some of this wine has found its way to New Zealand.

It should not be forgotten that the reputation of German wines was made by the wines of the Rhine and the Moselle, which were never watered. In future it will be illegal to water any German wine.

In the United States, because of pressure from the eastern states, particularly New York where most of the grapes are of the labrusca or hybrid type, under Federal law a water/sugar solution of up to 51 per cent is permitted. But in California, where 90 per cent of American grapes are grown and harvested and which produces by far the largest quantity of wines in the United States, water or sugar has never been permitted except – as in the case with Australia – 3 per cent water is allowed to dissolver permissible additives.

New Zealand now joins an invidious group, the eastern United States, perhaps Canada, and perhaps some other countries which – like the violet – prefer to blush unseen and where water in wine is now permitted to be added legally. None of these countries figure prominently in the world of wine.

Water in itself it not a health hazard, and Health Minister Geroge Gair has been quick to point out that it is not the function of his department to attempt to prescribe for the "consumer standards of quality, taste or style as they may be perceived by popular estimation from time to time".

The Minister of Trade and Industry, Lance Adams-Schneider, said in Hamilton that water in wine has no bearing on his portfolio. Neither, apparently, has the overall quality.

But water in wine is no ephemeral fad. Right from the dawn of antiquity, it has been proscribed against – the world's literature is full of allusions to it and men have been hanged for the crime.

Many of our wines are now classed as "thin", "bland", "uninteresting", "without complexity" – all the results of adulteration by water and sugar. And it seems that we, the consumers, are going to have to put up with this for many years to come.

Though not consulted by the Health Department, many consumers and organisations, such as Wine and Food Societies, protested against the addition of water in such large quantities, but to no avail. So have some reputable winemakers.

Sugar is permitted in some countries, but always under strict conditions and limited quantities. No country in the world uses as much sugar as New Zealand except eastern United States and Canada.

It all boils down to a shortage of grapes, and within that shortage, a lack of the right grapes which mature with sufficient sugar under our climate conditions.

The grape growers blame everyone except themselves, yet they have been warned about it since 1960 by a succession of experts from overseas. Our rigid protectionist policy over the years has meant that there was no cause for worry as long as the tap and the sugar were available.

In effect, the Wine Institute argues, it was necessary to incorporate such inordinate quantities of water and sugar to "stretch" the quantity of wine to meet an ever-increasing public demand.

Under any normal free-enterprise government, if a manufacturer is unable to meet the demand, import controls would be relaxed until the situation righted itself.

Not so in New Zealand. The wine manufacturers are being allowed to adulterate the product so they can meet their own commercial goals.

The Wine Institute should be renamed the Wine Manufacturers Association and a wine council should be set up, including Government and consumers interests.

It is said that there is an export certification plan which will ensure that only top grade wines are allowed to be exported. But with anything up to 80 per cent of the total volume of wine to be produced adulterated beyond consideration, it will be hard to police top premium wines. Present measuring devices used by the Health Department are not able to determine within 10 per cent to 15 per cent accuracy the amount of water added.

A traveller, recently returned from Japan, reported seeing on store shelves a notorious "alcoholic beverage" in casks which featured in the news recently. What will the Japanese buyers think of our wines – it will certainly be classed as a wine?

We have here in parts the climate and the soil to produce the finest wine in at least the southern hemisphere. We do produce some of the world's finest horticultural products, but we shall never produce wine to that standard if we pander to the greed and the commercial morality of a small minority.

The wine industry has been cossetted enough, and should now be prepared to stand up to competition.

The result in time would be wine of which New Zealand could be proud – adulterated wine permitted by the law should have no place in a self-respecting nation, and certainly it will be noted overseas by our competitors.

Frank Thorpy is an author and journalist specialising in food and wine.

Letters

Lion's beds or tour tickets

YOUR article by Peter V O'Brien on tourism and travel (*NBR* March 31) touched on many aspects of the industry, particularly reasons why Lion Breweries Limited — the largest contributor of beds — proposes not to build any more accommodation.

While building costs and the minimal return possible from a new plant, has for some time been the cause of lack of further action by companies such as ours, another feature recently confirmed our decision to remain out of new construction.

The opportunity was presented in last year's Budget for the Government to give impetus to this badly needed tourist requirement. However, the opportunity was lost, and the Government chose to offer firms earning foreign exchange from the sale of tourist services benefits similar to those enjoyed by exporters. The hope was expressed that this would flow on through all sectors of the tourist industry.

Obviously, the benefits go to those selling tours into New Zealand, not to those who might erect hotels. Incentive to tour operators will result in more tourists being sold tickets to this country, but it will not make hotel building cheaper or more profitable even if the tourist flow were to double or treble.

The Budget offered nothing to companies such as Lion, which formerly used their principle strength, that of brewing, to assist in building tourist accommodation.

Years of strict price control have removed this potential source of funds. Even the belated relaxation from control of liquor and food sales in restaurants is no inducement.

If the Government is anxious to have more tourist hotels built, and see taxation inducements as being a useful tool, these inducements should be directed to potential hotel builders, rather than other segments of the industry with different responsibilities.

John Macfarlane
Managing director
Lion Breweries Limited

Rose Park background

WITH reference to your article by Gordon McLauchlan (*NBR* March 31), we appreciate mention of Rose Park but would like to point out it was incorrectly named as Rosebank Motel.

J J Low
Managing director
Low Holdings Ltd

Vehicles run on cow dung?

WE were interested to read Warren Berryman's article (*NBR* March 24) on "Fiat drives into the alternative fuels marketplace on cow dung". The matters referred to were confusing to us.

For example, the heading suggests that the vehicle was running on cow dung, whereas in fact, the cow dung is shown in the text to be used to power a toaster. We hope the toast did not have cow dung flavour.

The drive to work on a handful of sawdust is certainly not adequately explained. Was the sawdust inside the car or was it methane from sawdust produced in a plant elsewhere that drove the car?

The deduction that the Totem system is 90 per cent thermally efficient compared with 25 per cent for a petrol engine is indeed very important, but unless we can see what the subject matter is and how the measurements are made we remain intrigued, but unenlightened. We respectfully suggest that an important journal, such as *National Business Review*, requires to inform readers of the facts of the situation and not to confuse.

We hope that all energy articles will always in future be able really to inform the public as has indeed been the case with most of the articles that so far have appeared.

Dr F B Shorland
Biochemistry Department
Victoria University of Wellington

A MATTER of style got in the way of the technical details. The cow dung would be converted to biogas to fuel the motor and the sawdust converted to alcohol as an alternate fuel for the motor.

The thermal efficiency of the system is improved, as explained, by making use of the heat that would otherwise be lost through exhaust, cooling and lubricating systems. This heat is captured with a range of heat exchangers. The heat is used in the form of hot water which can be used to heat a building, dry crops, or run a bath. — Editor

Little waste for alcohol

THE article, Future fuel success depends on waste crops, (*NBR* March 31) calls for comment.

New Zealand farming is of a type where there are few waste crops. Most farming is of livestock grazing in situ happily disposing of their wastes in a soil enriching fashion. There could be some crop straw, for example from maize, but the total area is small, and the energy input into collection would be considerable. The idea of running around picking up windfall fruit for alcohol is ludicrous.

A more important point, not mentioned in the article, is the opportunity cost factor. We could certainly produce methane from crops but they would have to be specially grown and on high quality land suitable for cropping. Thus production of export products (or import saving) would be reduced. There may still be a gain but it would be the net value which would have to be measured.

Work at Lincoln College suggests that fodder beet would be the most suitable but quite a large area would have to be grown within not too great a radius of the processing plant which might involve fairly large incentive payments to the growers.

There is another factor which has received much publicity lately — the moral consideration of using crop land to run motor cars in a world which could be short of food. This does not have much validity at present when there are grain surpluses, but does suggest that in the future trees rather than crops may be more suitable biomass material.

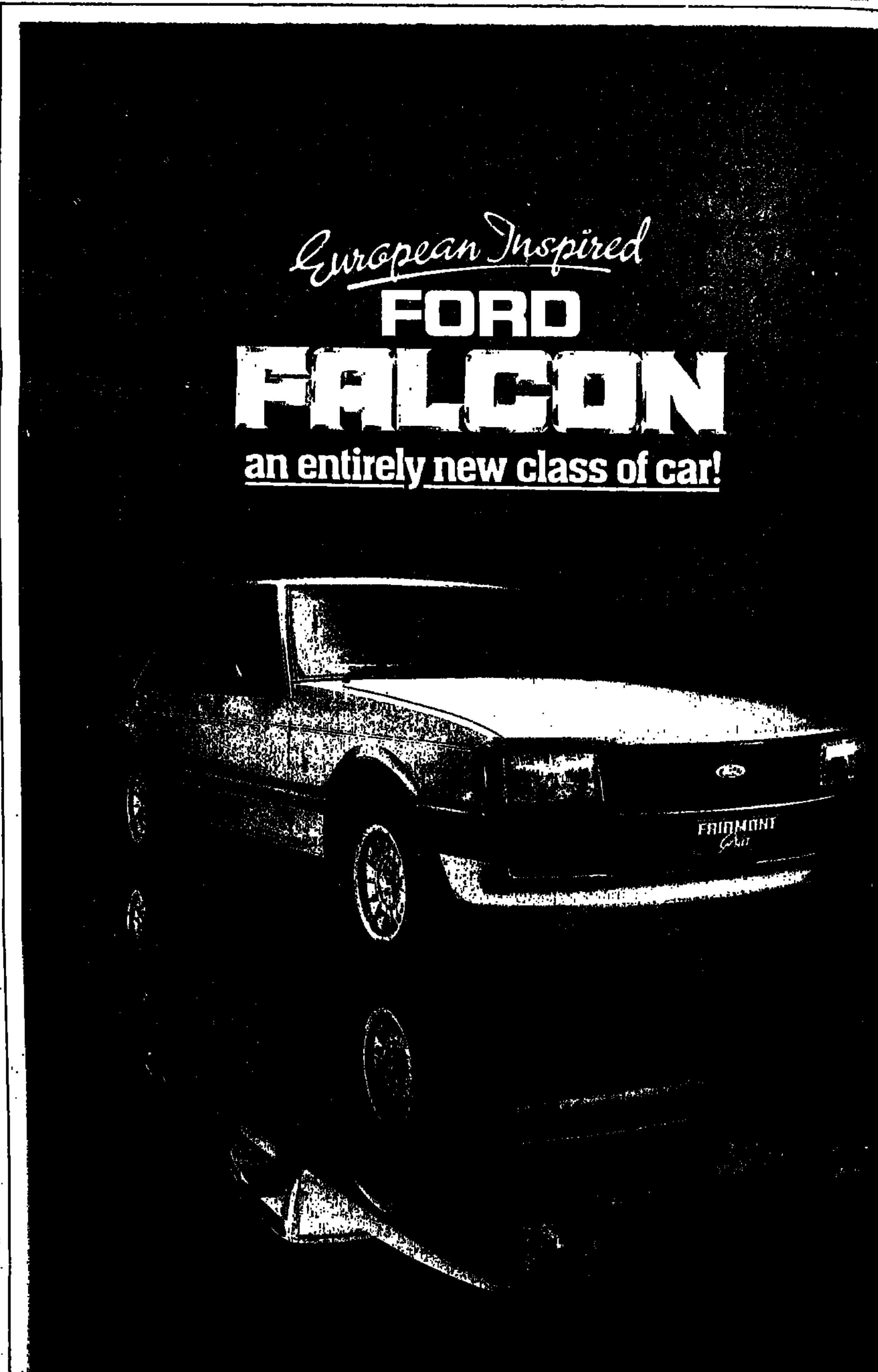
It is a pity that the two scientists did not carry their investigations to greater depth including assessments of the total area of land required and the effects on export earnings of a policy of self-sufficiency in petrol or diesel equivalent fuels from crops or trees.

J V White
Wellington

Specious similarity

DOES Ian Cross write Rob Muldoon's speeches, or does Rob Muldoon write Ian Cross's letters (*NBR March 17*). The specious bonhomie is very similar.

John Balneaves
Christchurch



Politics

"Democracy" has been at work — in secret

by Colin James

WHILE in the highest political councils there are rumours of a Cabinet reshuffle as a payoff for the Petrocorp decision and ripples of dissatisfaction with the Labour leadership, down nearer the grassroots some people have been gearing themselves up for next year's election.

The Labour Party has just selected four MPs for you: in Napier, Mt Albert, St Kilda and Heretaunga, safe seats where the sitting members are retiring.

It is called democracy, but you, the voter, presented with a *fait accompli* 18 months hence, might ask how democratic it is from your point of view.

If you live in Napier, you will have a choice of Geoff Braybrooke or Geoff Braybrooke, in Mount Albert Helen Clark or Helen Clark, in St Kilda Michael Cullen or Michael Cullen and in Heretaunga Bill Jeffries or Bill Jeffries.

In Miramar, where the National majority is 315, there is the chance of cross-voting to get young Peter Neilson if you are Nationalist with no enthusiasm for Bill Young and vice-versa if you are a Labourite.

Likewise in Gisborne (National majority 213) you have a semblance of a choice between sitting MP Bob Bell and Labour farmer Allan Wallbank.

But in three-quarters of the seats you take what you are given.

This does not just go for candidates. It goes for leaders, too.

A fair number of people vote National while wishing it could get itself another leader. The same goes, though the feelings are less intense, for Labour.

All behind closed doors. You can have any colour model T Ford you want, provided it is black.

So what? The parties are voluntary. Anyone who is interested can get involved and do their bit of democratising.

Why should the parties bother about people who are too lazy to do more than vote?

And in any case the contest is not between representatives for an electorate — that is a polite eighteenth-century fiction — but between competing alternative governments.

To so-what is this:

- There is a shortage of competing parties;
- The characters of those parties are determined by the MPs they select and high officers they elect;
- Voters who would like to see the party nearest their individual preferences moved nearer those preferences by the selection of people more compatible with their votes are effectively told by the present rules to go jump.

The influence of the voters over the composition of their favourite parties boils down to the influence Mongolian voters have: withholding their votes from their favourite parties.

In marginal seats, the exercise of even that influence is circumscribed by fears that holding back might let the unfavourite party in.

So how has the Labour Party been selecting your MPs-to-be?

Labour uses a panel system.

- Three members of the panel are nominated by the New Zealand council.

Two of these have been president Jim Anderton and secretary John Wybrow in all safe seats so far. Junior vice-president Dan Duggan was the third in three seats and Auckland unionist and New Zealand executive member Fred Anderson, was the third panellist in Mount Albert.

- Two, three or four members are chosen immediately before the selection meeting by the Labour electorate committee (LEC, the party's electorate controlling body).

The number of local panel members depends on whether the electorate membership is below 10 per cent of the 1978 vote, between 10 and 20 per cent or more than 20 per cent.

None of the four safe seats qualified strictly for more than two panel places, which is a sad commentary on the state of the party in long-tenure safe seats, though Mount Albert got three because it was only seven short of 10 per cent.

- The votes on the panel are augmented by a "straw ballot" taken of all those local 12-month-long financial party members and members of affiliated unions who turn up.

The "straw ballot" result counts for one vote in the selection. But the result is not published. Whatever Labour may say about open government, its enthusiasm wanes in such circumstances.

The sliding scale of local panel representation and the binding nature of the "straw ballot" were introduced in last year's rules changes.

The changes appear to have strengthened the importance of local feeling in deciding the candidate.

But at the same time the institutionalising of the straw ballot has complicated the task of would-be candidates in ensuring they have the measure of the local feeling.

Once upon a time diligent work in a few branches with key people could stack the local part of the selection panel (then always three out of six) and ensure selection, unless the "head office" panel members were rigidly committed to someone else or it was overwhelmingly obvious the broad local support lay elsewhere.

Now, the diligent aspirant must also convince ordinary party members to go with him.

In Mount Albert, St Kilda and Heretaunga the successful contenders did both. All three mounted campaigns stretching over several months.

Clark was always the front runner in Mount Albert, but had to stave off a late run from some locals through their LEC chairman, Keith Elliott.

Michael Cullen, genial 35-year-old intellectual (university lecturer) with a practical side (organised Stan Rodger's campaign in Dunedin North in 1978), gradually wrested support from the Dorothy Fraser camp and — with union support — secured both of the local members on the selection panel, to the delighted surprise of Cullen's supporters who had expected they would have to share one-each with his opponent.

In Heretaunga, 34-year-old Wellington family lawyer and local body politician Bill Jeffries, brother of High Court Judge John, came from behind, also with solid conservative union support (delivered with the help of Electrical Workers' secretary Tony Neary to get his two panel members.)

The union support was critical in pipping local hope Warren Goff, who had been active longer than Jeffries' four-month campaign and had appeared at one stage to have LEC support sewn up.

Livewire, attractive, expatriate David Shand, who flew in from Canberra five days beforehand, learnt that charisma and a short campaign are not enough.

It is interesting also to note that in both St Kilda and Heretaunga the unions went for non-unionists, even though unionists were standing.

Thus, party notables' hopes that safe seat selections would throw up a woman, a Maori and a unionist have been realised only in one instance.

Thoughts that in Napier Bob Timu or Ted Waka might have filled the second hope and freezing worker (and forestry co-operative organiser) Mike Kitchin might have filled the third foundered on poor speeches in the first instance and some trodden local toes in the second.

Napier was conspicuous for lack of long-term organisation by the contenders which might have sorted out front runners in advance. But it conformed to pattern by giving the selection to the man who got most votes in the straw ballot, even though he had done no campaigning and relied on retiring MP Gordon Christie to round up signatures for nomination.

So the ballot has become important and may become crucial in the selection process (raising questions as to whether there should be tighter rules about who votes).

And so has campaigning, once frowned on. In marginal Miramar, in fact, the selection can be attributed to a door-knocking marathon over two and a-half months by 25-year-old economist Peter Neilson — who spent half an hour upwards with each of 120 party members, many of them older members taken for granted in the past.

Neilson's action goes some way toward introducing the concept of the "primary" election to the Labour Party — a concept first introduced to the National Party in 1969 by Peter Wilkinson who knocked on hundreds of doors of party members in Rodney before his unexpected selection.

(In National's case influencing the selection is simpler, since it is wholly by delegates selected by branches and named in advance.)

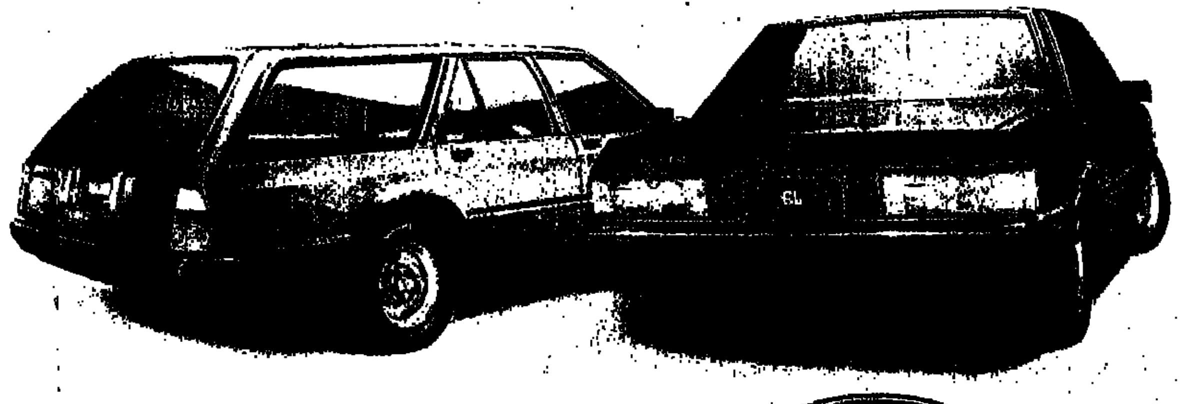
Things have been taken much further in true blue Remuera, where lawyer Doug Graham has gone the whole hog, fighting his campaign more in the news media than in National Party councils, though he now sits on the electorate executive.

By breaking all the unwritten rules, Graham sent the party into a flurry and has prodded Allan Highet, armed with a sounding of local opinion by heir-apparent (though not just yet) John Priestley and an assurance from the Prime Minister of Cabinet status till election time, into once more rescinding retirement hints.

The arithmetic at the moment favours Highet, but before he is home and hosed, much water is to flow under the bridge, including the addition of upward of 50 selection delegates to the 115 now chosen.

Not the least of the imponderables is the possible reentry into the race, should someone break ranks, of aspirants forced by the demands of decorum into a show of loyalty to Highet against the upstart.

Graham is unlikely to win. But National Party selections and maybe eventually Labour selections, too — are unlikely ever to be quite the same again. If he has prised them a bit more into the open, he has done the country a service, though one the machine politicians are not going to applaud in a hurry.



Economics

Dancing the benefit bludge to tax fiddlers' tune

Economics Correspondent

CONTINUING difficult economic conditions have made it harder to make ends meet. While some Kiwis deal with this problem by cutting back their household spending, going further into debt, or by trying to find other jobs to earn more, the latest fashion for a growing number of people is to cheat the Government.

Cheating has become a popular pastime for rich and poor alike. Or at least, that is what some public servants and members of the Government would like us to believe.

The increase in public dishonesty has set off a spate of cries for reform. Members of the public, outraged that somebody might be getting something for nothing at the Government's expense, have become diligent in reporting offenders to the appropriate departments. These complaints have provided juicy subject matter for policy-makers' speeches.

It is obvious to just about everyone that methods to improve economic conditions are not working. But apparently bad policy-making is not to blame. Responsibility must be placed on the shoulders of law breakers/tax fiddlers, dole bludgers and the unemployed who seek a soft life at the taxpayers' expense.

Kiwis earning money "cheat" the Government by doing work or paying for goods and services in cash. Records of these cash only transactions are hidden away or destroyed so that the Inland Revenue Department cannot assess them for tax.

Inland Revenue sources estimate annual losses through this sort of fiddling could be costing the Government more than \$100 million a year in lost revenues. And the head of Inland Revenue's enforcement section, Chief Inspector Tom MacKay, says tax fiddlers are on the rise.

Existing tax legislation gives the Inland Revenue Department the right to search for tax-related information without a search warrant.

This right is already liberally exercised by the department. It can search out some tax evasion by asking the trading banks to check out their clients' accounts.

Offenders also come to the attention of Inland Revenue through informers. Sooner or later most tax fiddlers talk about their fiddling successes and are reported by diligent taxpayers.

But even with outside help, Inland Revenue cannot keep up with the increase in tax fiddling. So, a computer has been installed which should be operating over the next year. Comparisons of salary groups can be made with the help of the computer and fiddlers can be identified.

If a dairy owner has been paying himself cash from the till rather than a taxable salary, his lower salary will look odd when compared with those of his more honest colleagues – unless they are all doing the same thing, of course.

Those not working to earn an income give the Department of Social Welfare headaches by illegally claiming the domestic purposes benefit and by taking advantage of the unemployment benefit.

Keith Holden spoke out about cheating by DPB beneficiaries on his retirement from the Department of Social Welfare in Auckland. He said that "many people living in *de facto* relationships are illegally claiming the domestic purposes benefit and are far better off than legally married couples."

Diligent reformers . . . blame poor economic performance on cheaters.

Holden believes that many think that *de facto* relationships are tantamount to being married. This explains the number of complaints about the payment of the domestic purposes benefit to such people.

Domestic purposes beneficiaries are unstable with accommodation making it difficult for the department to keep track of them. Holden also claims that they are rather demanding and optimistic in what they ask for and, proportionately, they were more hard-headed than other beneficiaries.

Some women on the DPB thwart that department's ability to press charges against the father of their children by saying that the father could be one of several men. This makes it impossible to collect maintenance.

To run a household, domestic purposes beneficiaries get \$4,612.40 per year, slightly more than half the average wage. It is not surprising that they welcome assistance from their friends.

Total Government spending for the domestic purposes benefit was around \$200 million in March year 1980. So if half those receiving the benefit are cheating, this type of cheating is costing the Government as much as it loses when taxpayers fail to pay tax on cash transactions.

Labour Minister Jim Bolger wants to reform the country's unemployment benefit scheme. In a speech to the Institute of Management in Dunedin earlier this year, he said an issue that concerned many people was "the right to the unemployment benefit."

Last year about half of those unemployed received a benefit of a little less than \$3000 a year or about \$57 a week. The Government spent around \$70 million to provide the unemployment benefit.

"If we are to achieve a greater rate of productivity growth, then it is important that we not only maximise the opportunities for people to work, but we minimise the opportunities of those who seek a soft life at the taxpayers' expense."

So Bolger thinks the Government must look closely at the criteria of qualifications for this benefit and the attitude and ability of people to take on work offered to them.

As the Government takes the economy into the 1980s with new technology, fast-track energy development and capital-intensive exporting, there is likely to be an initial period when unemployment is high and when income shares go to a reducing number of owners of capital and technology.

Cheating the Government will become more common. One good way to provide jobs for the unemployed could be to institute reforms to catch the cheaters. But to be effective, it might cost as much to enforce such reforms as the Government loses each year in cheating.

If policy-makers are really interested to control cheating, they might be more successful if they look into the causes of cheating. Are Kiwis becoming more dishonest?

Or is it perhaps that they are finding it increasingly difficult to make a crust in the more respectable ways.

A solo parent cannot earn enough doing part-time work to pay a babysitter and those with part-time jobs may be the first to be replaced by microprocessors. Taxpayers, pinched by economic conditions, will prefer to risk embarrassment by evading tax rather than cutting back their living standard further.

And there just are not that many unskilled jobs available for the unemployed, so they have little choice but to accept the "soft option" of the dole.

Perhaps rather than crying for reforms, policy-makers should spend their energy bringing back the economic affluence we once knew.

Wine Institute awaits IDC report

by Warren Berryman

LEGITIMISING watered wine through changes in the regulation is only half the battle for the Wine Institute.

Now the institute awaits a report from the Industries Development Commission on the question of whether the Government will force local consumers to drink this watered stuff by cutting back on imported wines.

The commission studied an industry report from the Wine Institute that asked for greater protection from imported wine – mainly Australian.

The institute's study pointed out that New Zealand wine had increased in price by 145 per cent between 1973 and 1978, while Australian wine went up only 45 per cent and Continental wines by only 34 per cent during that period.

A shortage of local grapes, combined with rising demand for wine and a prohibition on importing grape juice, will push local wine prices higher still.

Adverse publicity surrounding the water-into-wine miracle may turn consumers' heads to Australian wines, which don't suffer from this bad image and are now priced competitively with New Zealand wines – unless the Government steps in to preclude a consumer's choice.

Dairy industry considering extensive new netwo[rk]

by Stephen Bell

DAIRY Board plans to improve service to the country's dairy companies and overseas clients are beginning to take shape – in the form of a sophisticated on-line network with considerable "distributed processing" abilities, residing in minicomputers around the country.

The board's own executives will benefit from the introduction of a management information system which will place existing and new financial information into an integrated database. A number of terminals into the system will be available to executives.

While this development is still three or four years away, the first moves towards the "new look" system will occur in the next few months, with the installation of minicomputers into the first 13 of the dairy companies.

Successful supplier is Raytheon, which bid its PTS 1200 minis. Over 30 minis will be installed, each with visual display terminals and printers attached. Larger dairy companies are expected to have more than one terminal on their own minicomputer, while smaller ones will have only one screen and printer.

Some of the country's 53 dairy companies will not have a mini of their own, but they will be able to link into a neighbouring mini.

Choice of the Raytheon machines was made from among the 13 vendors who originally bid for the contract. The choice will be a blow for IBM whose newly released 8100 distributed processing system was in the running right up to the final short list of four. The 8100 was too powerful for the board's needs, said DP manager John Simeon.

Central processors are IBM mainframes. The Dairy Board has recently put in a 370/145. It also has a 370/125, now disused, a 370/135, and one of IBM's new 4341s on order.

Until now, processing has been concentrated in Wellington, but the four machines will be split. It has not yet been decided whether it will be Wellington or a new site at Hamilton.

Over 20 of the dairy companies are already linked into the current 135 and 145 systems, with Olivetti terminals. These are used to batch up data on company's stock levels and manufacturing activity and submit it to the board daily on a dial-up basis.

The Raytheon terminals will replace the Olivettis, and extend terminal access to other companies who at present communicate with the board by mail.

Initially these terminals will communicate in dial-up mode, but permanent lines will soon be leased, allowing companies to make inquiries of the stock file.

At a later date, the companies could be allowed to update the file. This, for example, would allow a company which has already committed stock to the board to withdraw it at short notice to satisfy a local demand.

The faster access to files on stocks, and faster notification of payment to the companies for manufactured goods will give companies and the board a better knowledge of their financial position, and allow cash flow to be improved.

The network will permit the board to eventually dispense with its internally maintained stock system, allowing companies to take over responsibility for maintenance of stocks files on the central machine.

This will eliminate reconciliation difficulties which have occasionally arisen between the board's stock system and that of individual companies.

In parallel with the setting up of the network, companies will begin to exploit the local processing capability of the minicomputers to set up their own application. A series of standard packages will be made available by the board, with tailoring as requested by companies to handle individual needs.

Payroll and accounts payable are expected to be among early applications, though there is clearly an opportunity for a wide range of other local jobs, from maintenance of spare parts inventory, to systems to aid companies' retail activities.

The network is also capable of use in a pure message switching role, replacing mail, telephone and telex links. This could, for example, allow orders for movement of stock, perhaps involving several companies, to proceed in a quicker and more co-ordinated manner, with benefit for exports.

It would be possi... tend the network ... board's overseas div... agencies via satellite... Brian Tappin, the ... manager of corporate... and information ... This, although, he ... lies some way in the f...

The decision ... processing power in H... is primarily motivat... need for back-up p... and information sto... growing volume of... information on the ... dairy industry held ... board has made the... for such back-up in... clear, said Tappin.

But the Hamilton c... will not be an ideal ... processor. The board... production division ... its herd improvement... the Hamilton centre ... plication accounts f... 20 per cent of the ... processing workload.

Existing batch sy... herd improvement ... also be put onto an ... database and live... provement agencie... given on-line acce...

New entity from me[rger]

THE takeover of Broadlands by Challenge has created, almost incidentally, a powerful new entity in the computing services market.

Plans for the new joint computer operation have been recently finalised. Apparently, it will introduce a totally new name to the market, but an appropriate trade name for the new operation had still not been decided as *NBR* went to press.

Both finance companies have long had flourishing computer bureau subsidiaries, though Challenge's has been somewhat less obvious, being based largely on work for companies within the Challenge group and a few large outside clients.

Broadlands, by contrast, has served a large number of small clients, so the two operations are likely to dovetail neatly. Both use the same brand of computer... – Burroughs – ... strengths are in diffe... graphical centres. Ch... main processor power... dual Burroughs B... Wellington, and Br... in an Auckland-based...

The future will se... north of some of Ch... internal computing s... work, and a build-up ... side work in Welling...

The finance compa... ness was, of course, the target of the takeover... computing services ... was apparently not ... vestigated in detail. Co... the computing service... the two companies w... made aware of plans ... vance; they were both... cidentally, at a Burroughs conference, when a lea... broadcast gave them the... hint that they would... working together in futu...

Plimmer undertakes to activate department

...man the tourist industry ...ted was the undertaker ...pointed to bury the ...artment of Tourism and ...licity could yet become the ...ed innovator.

...eil Plimmer, newly ap...ted head of Tourist and ...licity, career diplomat, 42, ...cated, polite, urbane, ...confident, is promising an ...ivist" department which ... "play its role in developing tourism".

Since he took up duties at ... beginning of April, Plim...r has tried to lay to rest ...me of the rumours about his ...pointment.

He agreed his background ... the nuts and bolts of tourism ...s not strong.

As deputy High Commis...er in Canberra he was in...ved in a study of tourism as ...t of the lead up to the recent ...mit talks.

As a career diplomat Plim...er said he had grappled with ...tailed technical problems on each posting.

In Washington he represented the Post Office in its dealings with INTELSAT, the international satellite communications system.

In Rome he was New Zealand's permanent representative to the Food and Agricultural Organisation.

"Each Foreign Affairs post has a different round of activity which trains people to develop flexibility and cope with new sorts of problems," he said.

"That sort of experience gave me the capability to tackle this job.

"Shifting from Canberra to this present job has not yet struck me as any more of a dramatic change than previous shifts."

Plimmer became particularly interested in tourism in Canberra, where he was involved in studies of the economic relationship between the two countries.

"It became apparent that the economic relationship extended beyond just pure trade items," he said.

"A large part of the money flow is non-trades. Invisibles and capital movements can account for up to 45 per cent of the total money flow.

"Tourism is the largest single component of that flow, and has a number of characteristics typical of the total trading relationship.

"Each country is the other's biggest market for manufacturing and tourism. In both countries, the other's share is shrinking."

New Zealand's share of outbound Australian travellers has slipped by between 1 and 2 per cent a year over the last five years. From a position where one in four Australian travellers came to New Zealand in 1975, less than one in five will do so in 1980.

In a similar period Australia's share of the New Zealand travel market has slipped from 57 per cent to under half.

While both countries are seeking to diversify their market bases, each remain the cornerstone of the tourist industry for the other.

"We can't look for new markets and contemplate our declining share of the Australian market with equanimity," Plimmer said.

Whatever the markets of the future, Plimmer is a firm believer in the value of proper research and of keeping all of Tourist and Publicity's seemingly diverse activities under the one umbrella.

"It's the commercial operations of the department which give it a cutting edge, but we are certainly going to have to look at building up our research capability", Plimmer said.

He has promised that the commercial orientation will be vigorously pursued.

"We're looking at modernising the operations of the Government Tourist Bureau to make it as commercially effective as it can be."

This does not mean expansion of the bureaus' role in the tourist economy. "We want to modernise not expand. We've no expectation of new offices."

On the aggregation of functions within the department, Plimmer said there was a logical relationship among the activities. "There are sales, promotion, information, publicity, press activities, film processing and film production functions.

"I'm personally opposed to selling off any of the bits just because a section might look more convenient located somewhere else."

The economic challenge of tourism has got under Plimmer's skin: "My real interest in the job is that it brings me into direct involvement with an area which is very important to our economic future.

"Tourism does make a major contribution to our invisibles. It is labour intensive, it's facilities are geographically spread, and there is a suggestion that the tourist dollar goes through more hands than any other".

Plimmer wants more work done to quantify the economic value of tourism in New Zealand "An Australian study says that for every 5 per cent increase in tourist numbers at least 1500 more jobs are created. It would be very interesting to find out if that's true here.

"Canadian and Australian studies have also suggested that for every $1 million spent by tourists the actual GDP increases by $2.6m. It would be interesting to compare that multiplier effect with those from other industries".

Plimmer is promising an activist department under his leadership. There was no question of any "burial" with him cast in the role of undertaker, he said.

Industry ponders Japanese onslaught

UP TO a hundred thousand Japanese visitors a year would be coming to New Zealand by the end of the decade if the local tourist industry could cope.

But Japanese tour firms are worried about how New Zealand would handle such a large increase in tourist numbers.

About 16,000 Japanese visited New Zealand in 1979, which showed a 20 per cent growth rate over the past 10 years.

Market projections by Japan Airlines, based on the historic pattern, see more than 30,000 Japanese visitors a year in 1985 and close to 100,000 in 1989.

These estimates are conservative, according to the New Zealand Government's tourist man in Tokyo, David Lynch.

Lynch, who heads the Government Tourist Office in Japan, believes the six-figure barrier could be broken much earlier than the airlines expect.

"A hundred thousand visitors a year is not an unreasonable target in five years, provided we keep on promoting in the market," he said.

"The Japanese travel trade is worried about the ability of the New Zealand industry to handle things at their end.

"This is principally a worry that there will be enough hotels of an appropriate standard to accommodate Japanese tour parties," he said.

The Japanese typically travel in groups. Last year 3.5 million of them left Japan for a variety of destinations – more than half of them in Asia. Collectively, they spent $2.5 billion on their travels.

Of that number more than 80 per cent were travelling for pleasure. The Oceania area which includes New Zealand received 54,000, or 1.2 per cent of the outbound market.

The size of the Japanese market has increased 27-fold since 1964 with a gradual liberalisation of travel and foreign exchange policies.

In the last four years Oceania's share of the Japanese market has increased by a third. The South Pacific is the fastest-growing component of that increase. It is up 40 per cent in the last year.

The typical Japanese tour party to this part of the world is about three-quarters men, aged between 30 and 49, with the women slightly younger. The holiday will be relatively short – about 10 days at the most from departure to arrival home.

Lynch says the local industry had some advantages. "New Zealand tour operators, specially hotels have a tradition of dealing with big groups, because our tourist industry grew up on the coach tour concept," he says.

"Secondly, we speak English. A large number of Japanese either speak English or can understand enough of it to get by when someone is explaining something.

"The Japanese are a very polite people. They will always thank you and tell you that they loved your country even if they didn't. Then when they get home they'll give their travel agent hell.

"However, a survey by the Japanese Tourist Bureau of high quality tours found that New Zealand and Australia were on top in terms of food and hotels fulfilling their expectations.

"While the tour agents in Japan rate New Zealand a 'no complaints' area, they haven't been building up their clients expectations very much so there's consequently been little disappointment with what they've found".

The capacity of the local industry to match the expectations of a growing Japanese market does worry Lynch.

"We're a bit behind in the service area. It's going to be difficult to match the standard that they've become accustomed to."

The opening of direct air services between New Zealand and Japan in July this year will obviously stimulate further growth.

Both Air New Zealand and JAL intend using DC-8s – a decision which disappoints David Lynch. "We'd been led to believe that Air New Zealand at least would be using DC-10s. Any service is a 100 per cent better than no service but I am disappointed the service will be by DC-8."

Kauri Deposit Surveys auctions forfeited share[s]

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses company accounts.

AN unusual auction of shares will be held in Wellington tomorrow. At 10.30am Wellington auctioneers, Gordon Harcourt Ltd, will offer 52,700 shares in 39 parcels in the unlisted public company Kauri Deposits Surveys Ltd.

The shares have been forfeited under the Companies Act for non-payment of calls.

The relevant provisions of the act state that shares in a "mining" company (which covers the present case) can be forfeited for non-payment of calls.

Under section 436 of the act the directors of the mining company "shall cause every forfeited share to be offered for sale by public auction", not less than 28 days or more than 60 days after the forfeiture.

If the shares are sold for more than the amount of the call, the call money is taken up by the company, and the balance (after deduction of expenses) is paid to the member who forfeited the shares — section 437 (1).

If the shares are not sold, or if they are sold for less than the amount of the calls, together with costs and expenses, the outstanding amount is recoverable in court from the member forfeiting the shares — section 437(2).

This means that a purchaser of the shares is liable only for the purchase price at auction on the fall of the auctioneer's hammer.

Kauri Deposit Surveys Ltd has a capital of 416,550 shares of $1 each. At the last balance date (1979) there were 118,500 shares with uncalled capital of 50 cents each and 85,400 shares with calls of 23 cents each outstanding.

The company decided to make a final call of 23 cents on the shares to which that amount is applicable, and to "call up the balance guaranteed by the underwriters in the next 12 to 15 months".

The file at the Wellington Companies Office has no information on the "underwriters", from the date of incorporation to October, 1979.

The auctioneers were unable to say which of the 39 parcels carried a call of 23 cents and which needed 50 cents to be fully paid up. But a purchaser need not worry about the balance of the call. They are concerned only with the auction price.

If one buyer purchased the total amount they would own 12.65 per cent of an unlisted public company. Depending on the price (and other factors regarding the company) that could be attractive for anyone seeking a sizeable stake in a mining company, without going through the trouble of forming their own corporate structure.

The degree of attractiveness will relate to the company's activities and prospects.

Kauri Deposit Surveys Ltd issued a prospectus in November 1974 seeking $560,000 from the public.

The initial directors were G G Hand, Wellington chartered accountant (also associated with the ill-fated Universal group), D Forman, Auckland industrial psychologist, K L Frazerhurst, Auckland mining executive now deceased, and S G Smith Wellington barrister and solicitor.

R G Hand and his brother, M S Hand, who was latterly secretary, resigned in 1979. There have been other board and executives changes.

The company was formed to prospect for kauri gum deposits in Northland. The prospectus, which referred to the venture as speculative, included figures showing the possible returns from kauri gum resin over a range of world market prices. The percentage return on capital went from a 27 per cent gross annual return before tax from the sale of 10,000 tonnes of extract a year at a sale price per tonne of $250 to 69 per cent at a price of $450 a tonne.

In the ensuing six years a large part of the company's funds have been spent on development expenditure, with no production, sales revenue, profit or dividends. The 1979 accounts filed in the companies office show issued capital of $416,550, uncalled capital of $79,400, and calls in arrears of $27,965 to give paid up capital of $309,185. A capital reserve of $32,060 was included in the accounts. The profit and loss account was in deficit to the extent of $159,224, which reduced paid up capital and reserves (total shareholders' funds) to $182,021. An amount of $1236 appeared as sundry creditors.

The company had fixed assets of $816 and $578 in current accounts with the Bank of New Zealand. The remainder of the assets was the "Development Expenditure Account", amounting to $181,863.

The auditors commented that the value of tha[t] ... "dependent upon ... ment and contin[ued] satisfactorily profi[table] of mining operatio[ns]".

The directors' ... year set out a ti[me] ... operations to bring ... spects into produ[ction] ... steps involved ob[taining] ... rious approvals a[nd] ... matters, but two ... seeking a substan[tial] ... by June, 1980, and ... further funds an[d] ... 1980.

The present ... structure sugges[ts] ... strong financial ... willing to commi[t] ... funds, is unobtai[nable] ... company will have ... lems in raising ... funds from the pub[lic] ... its existing shareh[olders] ... prepared to invest ... issue.

The directors ... rious approache[s] ... "number of fully p[aid] ... holders" in writ[ing] ... "brought absolute[ly] ... sponse.

"In other words ... holders declined ... purchase, and are ... interested in holdin[g] ...

Tomorrow's au[ction] ... test the reaction of ... ple to the venture ... paid for the forfe[ited] ... will decide the ext[ent] ... side interest, altho[ugh] ... shareholders migh[t] ... the opportunity to ... holdings.

BNZ Finance does w[ell] on overall market

HEAVYWEIGHT'S stocks pushed the sharemarket ahead in recent weeks, but there is still good capital appreciation among small and medium sized groups.

BNZ Finance did better than the overall market, and many leading companies, in March and April.

The Wellington based finance house enjoyed a price rise of 33 per cent, from $1.80 to $2.40 in the period from the weekend of February until last week.

The group is among the first of the March balancing companies to issue a preliminary report, but the result had not come to hand when this article was written.

The company is attracting attention for three reasons. First, there are now only two finance companies on the Stock Exchange list, BNZ and Marac. Anyone wanting a position in this sector has a narrow choice.

Second, a record profit is likely this year, well above 1979's $781,000. The first six months produced earnings of $519,000, an increase of 26.3 per cent over the corresponding period of the previous year. On that basis the market can expect the to[tal] March year to be a[bout] ... million, and possib[ly] as $1.2 million.

Assuming an earn[ing of] $1.2 million (which ... pushing towards th[e] upper limit) earn[ings per] share would be 37.2 ... the present cap[ital of] $3,222,000. The ... dividend was raised to ... so the company is l[ikely to] have a total payment ... region of 15.5 cents, c[ompared] with 14.5 cents last yea[r].

An earning rate of 37 ... would cover a 15.5 ... dividend 2.4 times, and ... yield of 6.45 per cent ... week's price of $2.40.

The yield takes no a[ccount] of the tax free element ... payment. The compan[y] ... three cents of the interim ... tax free sources.

Those projected figure[s lead] to the third probable re[ason] for the interest in BNZ F[in]ance shares.

Finance companies have a greater susceptibility to gea[r]ing requirements than indus[trial] organisations. BNZ Finance's parent compan[y] now has a relatively h[igh] gearing (the consolidated ac[]counts are irrelevant in t[his] context, because they include subsidiaries in the money markets, where a large turnover of funds allows the business to operate from a very low capital base).

It is becoming clear that BNZ Finance could tap the market for additional equity capital in the immediate future. The tradition of early reporting gives the company an advantage over other groups in the rush for new equity this year. It is no secret that several listed companies will be making cash issues in the next few months, but most of them need a preliminary report to which shareholders and the market can refer when working out the benefits from subscribing.

Capital reserves could be used for a bonus issue, but they are comparative, in relation to capital ($753,000 after deduction of the 3 cents interim dividend paid from that source) and the company may prefer to retain them for future tax free dividends.

A cash issue at a low premium would give a "bonus" benefit, in the sense of allowing entry at a high dividend yield, which then influences the price of rights to the new shares. The gearing would become appropriate to the present financial structure.

A premium bolsters capital reserves, which in turn can be used for further dividend payments.

The theoretical financial arguments explain some of the reasons for the 33 per cent price rise since late February, but BNZ Finance has other elements which made the shares interesting below $2.

The company has diversified its activities gradually away from only a basic finance arm of the Bank of New Zealand, which owns 40 per cent of the capital.

Its money market operations are developing, and other facets of the business appear to be expanding.

Last year Chairman George Chapman reported a new link with the bank. Only *NBR* took the trouble to analyse the moves in relation to future business.

The bank's branches are now effectively agents for the finance company.

The company therefore increased its branch network to about 230 in one move, well above the number of any competitor, and at a nil cost in capital investment and the resulting overhead, although it can be assumed that some arrangement exists between the bank and BNZ Finance to apportion running costs.

It is obvious that a minor bank branch is unlikely to produce substantial business for the finance associate, but even one or two deals assist outstandings, and this revenue and profitability, while having a minimal impact on fixed overheads.

A final point can be considered a long shot. The finance sector has seen considerable rationalisation over the last year, and expects more developments in future.

The Bank of New Zealand owns 40 per cent of BNZ Finance, and it is remotely conceivable that the bank could decide eventually to acquire the rest of the capital. The possibility is admittedly remote at present, but anything is possible over the years.

Analysing annual accounts: Golden Bay Cement

THE Golden Bay Cement Co is having a tough time. The annual report for the year ended December 31, 1979 shows the company sold less cement than in the previous year, and incurred higher expenses on lower volume.

Group tonnages, including sales from the associate company Wilson (NZ) Portland Cement, were 466,453 last year compared with 500,867 in 1978.

Total turnover, which includes revenue from non-cement activities, was $19,663,963, a rise of only 12.4 per cent.

Group operating expenses went from $15.8 million to $18.2 million, an increase of 14.8 per cent, but there was a substantial movement in interest costs, which apparently relate to the construction of new facilities at Turakohe. The table gives a breakdown of operating expenses, plus the percentage changes.

The largest movements in dollar terms were in employees' remuneration and other expenses. Both had a corresponding dollar impact on the profit and loss account, but the change in interest payments was a significant factor in minimising a profit lift over 1978.

The group balance sheet records short term borrowing at $3,637,604. They were $904,038 in 1978.

Term liabilities went from $3,847,567 to $4,129,365 in the same period.

On the asset side of the balance sheet, Golden Bay's fixed assets (after allowance for depreciation) rose about $3 million to $13.3 million.

A note to the accounts says that capital commitments for "plant and other payments, including the harbour development, not provided for in the accounts amount to $734,121 (1978 $4,025,130). The estimated annual cost of leasing certain fixed assets is $1,575,000".

A comparison of four different sets of figures in the profit and loss account, balance sheet, and notes to the accounts gave us the answer. Other readers could reach the same conclusion after a similar exercise, but it would be easier if the company included a statement in chairman Alex Paterson's review explaining the substantial rise in interest costs.

It would also be useful to know how much of the higher payment is "dead cost", in the sense that there may not be an offsetting return for part or all of the charge. Paterson says: "At Turakohe, work continued throughout the year on the new wharf and harbour facilities. These are now operating satisfactorily, but it will be some time yet before the harbour works are finally completed".

Is there a reduction in earning power through interest charges on facilities which have yet to earn their keep?

Item	1978	1979	per cent change
Audit fees	21,091	34,833	65.1
Directors fees	21,000	21,000	Nil
Depreciation	868,462	1,057,703	21.8
Interest	239,410	521,028	117.6
Employees' remuneration	5,810,830	6,557,160	12.8
All other expenses	8,872,033	9,993,111	12.6
Total	15,832,826	18,184,835	14.85

The interest cost had a paradoxical effect on the company's inflation adjusted accounts. The unaudited statement, recorded in line with the Society of Accountants' recommendations, shows a "gearing adjustment" credit of $1,018,000 under current cost accounting compared with $319,000 in 1978.

The gearing adjustment is "that part of the increase in the capital maintenance reserve which has been financed from borrowings, and represents a gain". What you lose under the historic cost convention you gain under CCA, although other items wipe out the gain, to take account of money losses in times of high inflation.

There is no information on the interest rate payable for short term loans, but the company pays 13.75 per cent on bank loans and 12.75 per cent on debenture stock. Both rates are below the depreciation of the currency, and the $3 million increase in short term loans over the year probably attracts interest at less than the currency depreciation rate for 1979.

Golden Bay still has financial strength, after allowance for all its trading problems. The proprietorship ratio (shareholders funds to total assets) was a healthy 62 per cent, and the net asset backing for each 50 cents share was 91 cents. The ratio of current assets to current liabilities declined, because the rise in short term borrowings was apparently used to finance the ongoing construction of fixed assets at Turakohe.

The ratio can vary daily, and given Golden Bay's circumstances, is not particularly important on an historical basis.

The company's problem is summed up in Paterson's comment: "In the calendar year 1974 the cement industry has record sales of 1.1 million tonnes. Your group participated in that figure to the extent of 718,255 tonnes or 65 per cent. For 1979 the industry output was 757,649 tonnes. Our share was 466,453 tonnes or 62 per cent.

"Such has been the decline in cement usage over the last five years. The capacity of the industry is 1.3 million tonnes. Our projections indicate that it will be many years before usage approaches this level. At best we think that the decline is coming to an end".

O'Brien on business

Planning Council report favours tax reform

Continued from Page 1

differentials in the supply of some public goods, including bulk electricity and natural gas products.

It considers the impact on transport and transmission costs could be significant and encouragement would be given to invest in the most suitable locations. This would contribute to, rather than discourage, increased regional specialisation in the use of resources, in the interests of the regions concerned and the country as a whole.

Where subsidies or the provision of free services is considered desirable in the national or regional interest, it recommends these should be explicitly provided for in Government or local authority budgets.

State trading enterprises should otherwise be expected to earn reasonable rates of return on the large amounts of capital employed.

The aim should be to promote the fullest and most productive use of the resources available to the public sector. This will be encouraged by an increasingly careful evaluation of public sector investment proposals.

Greater reliance on the exchange rate as a means of adjusting relative prices is strongly recommended, now that the mechanism for frequent and discretionary adjustment has been installed.

The task force says many regulations, controls, subsidies and incentives in agriculture, manufacturing and tourism have been necessary because of the deficiences in past exchange rate policy. The possibility now exists for increased reliance on active management of the exchange rate in the interests of balanced growth.

Moving to investment finance, the report considers the abolition of many direct controls in the domestic financial sector has been to the benefit of the whole economy. Most of the remaining problems in the capital market can best be solved not by new controls, or more specific subsidies, but rather by getting the macro-economic policy framework right. The most important policies relate to reducing inflation and making some necessary changes in the tax structure.

The creation of a stable open environment is also desirable to attract the overseas investment which will most benefit New Zealand. The solutions to problems arising from overseas investment are said to lie in reducing unduly high levels of protection, avoiding unnecessary incentives, and getting the signals right, rather than restricting investment opportunities to domestic residents.

These policies are needed to ensure that foreign investment confers the maximum benefits on New Zealanders. The same policies are required by New Zealanders whether we attract foreign investment or not.

Most of the report is an examination of sectoral implications of investment strategy and investment capital for agriculture, forestry, manufacturing, tourism, transport, retailing, construction, energy development, regional dimensions and public sector investment.

The task force examines the financial system and capital market, and has a section on the role of foreign capital.

Comments on the capital investment market may cause the widest divergence between the task force and present Government policy. The task force says the double taxation of distributed company profits, and the bonus issue tax, have no obvious economic or social merit and should be abolished.

In the case of "double taxation" of profits and dividends, there would be logical economic arguments to abolish both the company income tax and the dividend tax and to attribute the full (untaxed) company income to shareholders to include in their personal income. This would ensure that no company profits, whether distributed or undistributed, were taxed higher than the maximum personal income tax rate.

The task force says it could be handled with administrative simplicity if companies paid a type of withholding tax on behalf of shareholders at the maximum personal income tax rate.

Shareholders paying less than this rate would be able to claim a refund. The shareholders in public companies would be put on essentially the same footing as shareholders in private companies, and the partners in partnerships.

Reserve Bank governor Ray White's system of "reals" for denominating debt is endorsed. Under White's constant value unit of account, only the true interest on the debt would be deductible or assessable, with compensation to the lender for the effect of inflation on his debt neither deductible by the borrower nor assessable to the lender.

The bonus issue tax, which is levied at 17.5 per cent on any issue of new shares made by capitalisation of a company's revenue reserves, is described as "perhaps the silliest tax."

The "real dearth" of long-term investment capital is ascribed to inflation, rather than to any institutional gap in the financial system.

The report says it is apparent that inflation has had, and is having, highly deleterious effects on the workings on the capital market, and on its ability to mobilise savings for investment in the 80s.

Two alternatives are put: One is to adapt institutional arrangements of the capital market to cope with inflation. It might involve the wider introduction of slow start mortgages, or writing all credit facilities on the basis of a floating-interest rate.

The task force returns to White's "real", which would be a better solution.

Current cost accounting is another option. Institutional adaptation would almost certainly involve indexing the personal income tax structure for price changes.

The second alternative is stated bluntly as elimination of inflation.

The task force is clearly against controls in virtually all areas of the economy, and asserts that "the abolition of control on virtually all interest rates has probably done much more to protect investors than all the elaborate machinery established under the Securities Act, in 1979".

Poor investment performance in New Zealand has several reasons. The low level of capital utilisation is one. Many factories, shops and public facilities are much less intensively used than in other countries, because of single shift operation; restricted shopping hours, and other established practices.

Secondly, the investment process itself is often [...] because of the generally [...] gestation periods" for [...] ment, whether ca[...] delays in approvals, [...] struction, or in obtain[...] installing capital eq[...] from overseas.

A third area of co[...] that public sector inv[...] decisions, accounting [...] about one-third of [...] Zealand investment, [...] ten been made [...] adequate prior anal[...] sometimes on doubtful [...] omic grounds. This [...] have been true of [...] private investment [...] particularly in the m[...] tected areas.

Public policy, par[...] in its regulatory aspe[...] domestically and at th[...] tier, distorts the allo[...] private sector investe[...] reduces the returns [...] ment in the econo[...] whole.

Manufacturing

Kentucky Fried snaps up glider invention

by Warren Berryman

A LOCALLY-designed toy glider with a revolutionary wing, could be this country's answer to multi-million dollar youth crazes such as the hula hoop and frisbees.

But New Zealand manufacturers will not be cashing in on the profits, nor will local children initially be able to play with the glider.

Auckland design engineer Richard Karn's invention was rejected in this country, but snapped up by Kentucky Fried Chicken of Australia.

The firm named them "Super Chook's star gliders", ordered 200,000 planes and intends selling them as a premium item at 50 cents each.

Kentucky Fried is working on selling it internationally, wherever the Colonel's finger lickin' chicken is sold.

So the little polystyrene planes, which sail on and on, seemingly forever, could be the next children's craze in Australia, Britain, South Africa and America.

Karn, who is already preparing on mark two and three designs of the plane, will probably get about $4000 in royalties from the initial deal.

The planes are being manufactured in Australia.

The planes will not be available through Kentucky Fried Chicken outlets in this country as import licensing, protecting the local toy industry, precludes this sort of new import.

Initially, Karn hoped to manufacture in New Zealand for a world market. He took his registered design to Trade and Industry and AHI, the only local manufacturer capable of making the extruded polystyrene wings. And no one was interested.

But Geoff Collins, director of Auckland-based Catalyst Marketing, took the idea to Australia where its immediate potential was quickly recognised.

Now an Australian company, specialising in supplying premiums, Day Publishing, is handling the planes.

Collins said: "It's a shame New Zealand is missing out on a product with such export potential. It was a golden opportunity to take advantage of the slack capacity in the plastics industry. But local manufacturers won't price their goods for high volume sales."

Promotion gimmicks are big business. For example, Kentucky Fried in Australia sold more than 100,000 of its "Star Surfers", an inflatable surf board retailing just under $5.

Kentucky Fried approached local manufacturers to make 40,000 boards. Prices quoted ranged from $10 to $11 each. No one was willing to guarantee their product. And no one got the job.

The firm then tried to import them from Taiwan. It is understood they could have been bought there for under $2. Trade and Industry would not grant an import licence.

Energy

Nuclear power: double production predicted

AN international consensus favouring the peaceful use of nuclear power as an acceptable means of meeting rising energy demand is emerging, according to American Deputy Energy Secretary, John C Sawhill.

The Carter Administration was taking a "positive approach" toward the further development of nuclear energy as an alternative to imported oil, Sawhill said.

"From the indications we have of the (pro-nuclear) vote in Sweden and other sentiments that I've recently heard expressed by foreign officials," he said, "it seems to me that there is a growing consensus . . . that we need, in the industrialised world, to move forward with our nuclear programmes. And I think you'll see that happen."

The United States produces nuclear power equivalent to about 1.3 million barrels of oil a day. By 1985 it should produce more than double that amount, Sawhill pointed out.

Similar increases in nuclear power use are projected for the remaining member countries of the Organisation for Economic Cooperation and Development.

Sawhill said the three major issues that have retarded the development of nuclear energy in the United States – safety, waste management and weapons proliferation – were being effectively addressed.

"We have learned something from the Three Mile Island experience," he noted.

"We now will develop better training methods for plant operators. We may be putting federal inspectors into nuclear plants. We certainly are going to develop more sophisticated emergency evacuation procedures. And, as a result of these steps, I think our public will gain greater confidence in nuclear safety."

Explaining the apparent conflict between President Carter's announced support for nuclear power and his reduced spending request to Congress for nuclear development in fiscal year 1981, Sawhill replied: "The Government's budget doesn't determine the rate at which our nuclear programme will move forward. The Government does not build nuclear generating plants. They're built by private industry in this country.

"What you have to look for is the speed at which utilities are ordering and building nuclear plants and the rate at which we're licensing new plants and new plant sites. And I think you'll see that pick up over the next few years."

Other points made by Sawhill:

- The industrial countries must help the poorer, non-OPEC countries to develop their indigenous energy supplies and meet the severe financial problems they face because of rapidly escalating energy prices;
- The United States is encouraging Venezuela to expand its heavy oil production and intends to develop the domestic refinery capability needed to process heavy oils;
- He would be "reluctant" to curtail the importation of small, fuel-efficient automobiles from Europe and Japan, because they contribute significantly to United States energy conservation.

Admark

Women take on advertising

by Belinda Gillespie

THE increasing predominance of women in business and advertising in particular was the main topic when Jock and Elly Elliott talked to *NBR* in Wellington.

Elly Elliott is a director of the Celanese Corporation, a company high on Fortune Magazine's list of the top 500 United States corporations, and Jock Elliott is the chairman of Ogilvie and Mather International.

Elly Elliot . . . foothold as a "token woman"

Elly Elliott gained her foothold in business when big corporations started to look around for "token women" to put on their boards.

Celanese' only woman director was chosen for her activities in the "non-profit sector" where she had large management responsibilities and experience in dealing with people.

"When the trend for women on boards began, there were none in business, so the corporations turned to the area of welfare work where many women had valuable management experience," she said.

"Traditional women's lib" is all over in the United States, according to the Elliots. It was a transient period, followed quickly by results as concepts changed and women were accepted into areas previously denied them.

Elly Elliott's first feminist demonstration, in New York, 1970, turned out to be her last. "I had thought that women would have to do a lot of parading. But no, in almost no time society accepted the women's movement. Its existence was given definition by law, by education, by the media, and especially by politics".

Ogilvie and Mather has between 35 and 40 women vice-presidents, and many "very senior women" in positions around the world. It has no women corporate directors.

Employees are hired by Ogilvie and Mather for their ability – but: "In the last five years new entrants from business school have been 60 per cent women – they're better motivated and work harder," Jock Elliott said.

Women graduating from business school now number 10 per cent, compared with 1 per cent 10 years ago. Women equal men numerically on Madison Avenue and in the publishing field, and are slowly accepted in industry.

"You don't see women chairpersons all over the place," said Jock Elliott." "They're coming in at entry level and still haven't reached senior positions. It's only a matter of time before there is a woman head of Ogilvie and Mather".

Unemployment has worsened as a result of women entering the workforce. "We will have to look at unemployment in family rather than individual terms. It's not a matter of women taking jobs from men – people are now hired on the basis of the best qualifications".

Ogilvie and Mather allows women to come back in to the firm at the same level after up to two years maternity leave. The trend for better maternity and paternity leave is growing, according to Jock Elliott. "If the company is growing, like Ogilvie and Mather, it's no problem to fit a person back in. If the company isn't growing, there can be difficulties".

Jock Elliott was in Wellington because he makes it a policy to visit as many of Ogilvie and Mathers' 94 worldwide offices as he can each year. It is four years since he visited New Zealand. His task here was to review work at first-hand and comment on it, meet employees and clients and "get a feel for 'comers' ".

Elliott said the current recession was the seventh in the United States. "All the studies show that advertisers who keep up the pressure do better during a recession, and emerge stronger at the end of it." But, it takes character, and a "sophisticated, bold marketer to keep up the pressure when times are bad," he added.

Total advertising expenditure in the United States has grown every year (except 1962) since World War II. "The picture of agencies which rise and fall overnight and accounts which are switched over the third martini is all wrong," Elliott said.

Of the top 25 agencies 10 years back, 22 are still in the top bracket. Ogilvie and Mather, 15th ten years ago, is now fourth in the world. Last year saw "dramatic growth," with a 22.8 per cent increase in revenue.

Jock Elliot . . . here to get a feel for "comers"

Growth continued, despite the loss and resignation of some large accounts, and escalating costs due to inflation. Elliott attributed this to the remarkably consistent growth of the advertising industry, and the increased cost of personal selling, which makes advertising an increasingly efficient alternative.

"Ogilvie and Mather is well positioned to take advantage of this worldwide industry growth. We now work for more than 1700 clients in 93 offices in 33 countries," he said.

The agency has had a good year for new accounts – 325 of them – including TWA. It grew rapidly in the expanding field of "direct response" advetising (advertising that asks for the order and provides a means for the consumer to respond directly – direct mail for example). The company is forming "an international network" of direct response offices, with six to date.

Most recent associates are the Peking Advertising Corporation and the Guandong Advertising Corporation, for whom Ogilvie and Mather has agreed to act as the "primary associate" in EEC markets, Australia and New Zealand.

It is the first international agency to place advertising for the People's Republic of China outside China or Hong Kong.

It pays to argue

by Grev Wiggs

"WHICH side is the Government on?" was the headline of an advertisement by the Recording Industry Association which ran in *NBR* April 14 and in other publications.

It asked the Government to correct the position where records attract a 40 per cent sales tax, thereby jeopardising the future of the local recording industry and of New Zealand artists.

It is an excellent example of what has come to be called "controversy advertising".

The International Advertising Association defines controversy advertising as any kind of paid communication or message from an identified source and in a conventional medium of public advertising which presents information on a point of view bearing a publicly recognised controversial issue.

We have witnessed a growth of this type of public communication in New Zealand in recent times. The arguments of industrial disputes have often spilled over into the advertising columns. The conservationists have become visible in paid advertising spaces. The trend to use advertising to ventilate public issues is a growing one.

Direct advertising allows the protagonist to move quickly in stating a case or rebutting an argument. The method can be deemed to be cost-effective, controllable, accountable. It can be directed with deadly accuracy at a target audience.

It does call for expert handling and direction. Poorly prepared and inadequately mounted it can produce a negative feedback. We have seen examples of amateurish special pleading which talks only to the converted.

A recent example of the successful application of controversy advertising was provided by the Uranium Producers' Forum in Australia which was faced with the threat of a two year moritorium on all uranium mining.

A campaign, handled by SSC:Lintas, Sydney, was mounted in 1977 based on the case for minimising the energy crisis.

Whereas research early that year found that less than 50 per cent of the adult population was in favour of uranium mining and exporting, after the campaign, 66 per cent were in favour. (Some industrial unions and the Labour Party are still strongly opposed.)

In a day and age when public policies are more likely to be questioned and openly challenged rather than meekly accepted, controversy advertising seems to be here to stay.

Agency tag changes

DORMER Beck Campaign Ltd has become Campaign Advertising Ltd.

Forty-nine years ago, Roy Dormer, Case Beck and Ray Trenchard Smith, now all deceased, formed the Dormer Beck agency in Auckland.

Dormer Beck, which was not accredited, placed through JIW, acted as its Auckland office and was represented on its board.

Fifteen months ago this company merged with Campaign Advertising Group and the title became Dormer Beck Campaign.

The name resulted in some confusion and it was decided to change to Campaign Advertising Ltd. "We have a lot of respect for the old name," said partner Terry Christie, "but we have to look forward. This is a name for the future."

Profile

Change at top leads to reorganisation of Mair

by Neville Gibson

ANY company which is spending $3 million on separate expansion programmes in slump-hit Christchurch must be riding on the sheep's back.

In the case of Mair and Company it is perhaps literally too true.

The diversified group has a wide range of exporting and importing activities, as well as manufacture, but 60-65 per cent of its total turnover still comes from wool and related products.

Managing director Alan Shadwell says the general aim of the group now is to "add value" to raw products, and that means scouring wool or turning it into yarn.

The company officially opened its modernised Kaputone wool scour at Belfast earlier this month — an investment of $2 million — and another $1 million is to be spent on expansion at the jointly-owned Christchurch Carpet Yarns factory.

The Belfast scour has installed the latest in modern equipment, much of it developed in New Zealand, to make it the most advanced plant of its kind of the world.

It's a project very close to Alan Shadwell's heart.

He joined the Mair group through the scour business after feeling he had learnt all there was about wool while teaching the wool diploma course at Massey University, a course he had attended earlier as a student while working for Wright Stephenson.

Shadwell has a yearning for the land and in normal circumstances would probably have become a farmer in his home area of Central Otago.

But in 1949 he missed out on the rural field cadet scheme and was forced to look elsewhere for a living.

He joined the stock department of Newton King in Hawera — "because relatives told me there was an opportunity."

After returning to Massey as a teacher, Shadwell took night classes in accountancy, graduating in 1961. It proved to be the watershed in his career, as in that year he moved back to the South Island as manager at Kaputone.

His immediate task was to turn it into a profitable unit after Mair had bought an interest in the then operating company, Andreae (NZ) Ltd.

Shadwell says his main job was to get the scour away from its small-scale operations. Long production runs, management and marketing expertise, and advanced technology were alien to the scouring business, long dominated by family-run concerns.

Within three years Shadwell had seen Kaputone embark on its first major stage of development and by the decade's end it was well into the black.

Small grower clients had given way to larger merchants suppliers and a strong marketing thrust had found ready buyers for the wool throughout the world.

Alan Shadwell ... knack for picking people

The Kaputone exercise became a blueprint for other scour operations and Mair became involved in several joint ventures. It also invested heavily in research through the Wool Research Organisation.

The fruits of this programme are now seen at Kaputone.

But as the project reached its full potential, greater things were in the offing for Shadwell. The Mair group was grooming him to be the new chief executive to succeed long-serving chairman and managing director Peter Polson, who quit the latter role in June last year but remains an executive.

The change at the top was reflected in the management thinking at Mair as it reorganised into a group of operating subsidiaries under a holding company.

In addition, it has a 40-50 per cent interest in half a dozen other operations.

"A structure like this has advantages and disadvantages," Shadwell says, "and how good it is depends on the people who run it.

"If you pick out good quality staff and put them in the right place they can get a feeling of creating a success. It's the kind of reward you don't get in a large concern."

None of the Mair companies has a factory staff of more than 40 and management at the top is lean.

But Shadwell concedes there are problems if the right people aren't in the right job. "You can shuffle unsuitable people sideways in a big outfit, but not in a small one."

Shadwell says the current Mair team reflects his own experience with the scour business, which he has left in the capable hands of two men he trained to do the job.

He says his knack for picking people came from the large classes he had to teach at Massey.

"It taught me how to select those who were going places from the mass. And you need that at Mair where we depend very much on people and having the right two or three at the top."

Shadwell is down to earth about his management philosophy.

"Once I add accountancy to my experience and knowledge of wool management it became commonsense. People can get into all kinds of training schemes but one book does me — Townsend's *Up the Orgnisation*.

"With that book you can have all the management story you need in your hand. To me, management is after all getting people to do what you want them to do."

This goes down to the factory floor, too, and the company issues a detailed report to staff each year. The Kaputone development programme and plant design was vetted by a works committee of management and staff.

Sophisticated computer aids to management aren't part of the Mair scene yet and have been rejected because "we haven't found the one that fits."

The company is organised around people but Shadwell says computerisation is constantly under review and will probably come sometime.

"As a marketing company we also need a strong executive influence at board level," he says.

Peter Polson had been chairman and managing director for 10 years and several other executives are on the board.

"Directors can sit and pontificate all they like, but most of the decisions that count are being made d... the line."

That line stretches r... round the globe to Eu... where the group earns ... of its export income — ... million out of a total turn... of $89 million in the ... month financial year in 1...

Shadwell sees depend... on exports as a major stre... in withstanding econ... gloom at home.

"Overseas marketing i... many ways easier than d... locally," Shadwell says. "I... matter of communication ... once this is established ... kept up it becomes a str... forward operation.

"If your spread of cou... is wide enough it de... matter that one goes dow... another always comes u... New Zealand, if someone ... down everyone does a... hard to pick yours... again."

But Shadwell d... under-estimate the diff... or competition overseas...

"It's tough but ... because of the spread ... also has a word of war... companies who ba... success on export ince...

"They're good in the ... term in areas like add... But no company ... depend on them. The ... incentives should be ... out after a certain p... otherwise it stifles the... remain enterprising."

Shadwell was also ... Mair's campaign to ...

Continued on P...

Industrial relations

Technology and weekend trade for FOL agenda

by Ric Oram

POLICIES on new technology and of opposition to extensions to weekend trading are expected to be shaped at next month's annual conference of the Federation of Labour.

The conference is also expected to have a preliminary word about the proposed tour next year of a South African rugby team.

The ban on trade with Chile should stay after the conference, and there are moves afoot to press for a ban on the herbicide 245-T.

Unions met in Wellington recently to discuss new technology and to draft policies which are likely to be put to the FOL for endorsement.

In a remit to the conference, the Clerical Workers Union says there is a need to ensure that workers are adequately protected against the ill-effects of new technology.

The remit says employers have failed to respond adequately to union initiatives in seeking protection for their members, and that the Government has abrogated its responsibilities.

The union calls on the FOL to "support the development of a co-ordinated trade union policy and approach to new technology; to support affiliated unions in their efforts to require employers to consult and agree on such things as adequate safeguards for employment opportunities before new technology is introduced; and to call on the Government to introduce legislation setting out a code of practice for the introduction of new technology in line with Scandinavian legislation".

The Shop Employees Union will ask the federation to take steps to prevent the "encroachment" of the basic 40-hour week. The union points to a proliferation of Saturday trading and the continued demand for more goods to be taken off the exempted goods list.

It will call on the conference to urge all unions to boycott those shops that contravene the provisions of the Shop Trading Hours Act.

Redundancy becomes an issue at FOL conferences at a time of high unemployment. This one will be no exception. There are remits which note the "hopeless inadequacy and irrelevance" of the Redundancy Regulations, and call for direct bargaining with employers on redundancy agreements.

The Meat Workers Union goes further, wanting a contribution from employers to a "Trades Council Unemployment Centre" which would work to combat unemployment. There is support for this from the Wellington Drivers Union.

The FOL has always been opposed to apartheid, but cautious in how it responds to any visit by a South African sporting team. This conference will probably be just as cautious in reaching any policy to apply to next year's proposed Springbok tour.

The problem is to apply an anti-apartheid policy without losing the support of many rugby enthusiasts among union membership.

The tour won't take place (if at all) before next year's conference, but two drivers' unions are asking this conference to discuss it.

The Wellington Union wants the FOL to advise the New Zealand Rugby Union of its opposition to racism; that unions support anti-apartheid organisations and the Gleneagles Agreement, and: "that the proposed 1981 South African rugby tour of this country will not take place if an invitation is extended to them".

Two unions call on the conference to reaffirm its ban on trade with Chile, and to continue its support for "working class opposition to the Pinochet regime".

There is a call for a ban on the chemical 245-T until such time as the FOL is convinced that the use of herbicides such as 245-T is not dangerous to humans.

And there is the possibility of involvement in local body elections later this year. The Wellington Harbour Board Employees Union wants the FOL to support any union which campaigns for worker representation on local public bodies and to ask Trades Councils to establish "workers election committees to assist in the co-ordination of local worker election campaigns".

The remits include the hardy annuals such as a shorter working week, and better accident compensation payments. But there is one which acknowledges a more recent social phenomenon — drugs.

The Shop Employees Association wants the conference to develop a policy to guide unions in their dealings with members who are convicted for drug offences. The union merely explains its interest by saying it wants "a consistent approach to their future involvement within the workforce and the trade union movement".

Demarcation disputes have always been a bug-bear for unions and the FOL — not to mention the problem for the employer who is usually the meat in the sandwich.

There have been various attempts at past conferences to have the FOL arbitrate in these cases — and it sometimes has. But there will be an effort at this conference to set up an *ad hoc* body to deal with such disputes.

The Harbour Board Employees Union wants a "demarcation tribunal". It suggests that its members be selected for three years from union members who will not be office holders of their union. Inter-union disputes should be referred to the tribunal, with a right of appeal to the Arbitration Court if the tribunal cannot settle it.

And in what is perhaps the shortest remit to the conference, the Shop Employees Association suggests "that the FOL appoint a public relations officer".

It will be interesting to see whether the view of former FOL president Sir Tom Skinner survives: to such a suggestion a few years ago, he replied that the FOL had a number of priorities, and the appointment of the federation lawyer was more important than a PR man.

The conference opens on May 6.

Profile

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breath of competition in the country's overseas freight arrangements, particularly in shipping

Mair was first in the country to push the idea of dense baling techniques, which can get two to three bales of wool into space of a traditional bale.

But it took a long and sometimes bitter argument with the producer boards and shipping companies to accept progress in these areas.

The advantages are obvious to anyone, but not in the circles who control this country's freight lifeline. While some concessions have now been won for dense bales, Shadwell acknowledges there is still a long way to go in getting justice for exporters.

On the home front, Shadwell has also had his hands full getting the Mair group fully ship-shape. He sees the task of making all units profitable in management terms.

The tanning operation in Auckland, Golden Shears, was closed down last year and so was a joint venture in Australia.

Shadwell is pessimistic about tanning and says it has the same problems of small family-run concerns that used to dog the wool scouring business.

But he is more optimistic about another troublesome subsidiary, Colt (NZ) Ltd, a manufacturing company that grew out of an importing agency.

It began making things when they couldn't be imported and is now a leader in solar energy equipment, as well as other lines in heating, cooling and ventilation.

Shadwell says reorganisation is continuing at Colt and the benefits should soon begin to flow.

Another arm that is recovering is the importing house Mairmark, which was hit by the economic downturn and then lost a lucrative agency.

Mairmark is now branching into other areas, specially as an agency for products from eastern Europe. They are big buyers of wool and hides, and are keen to redress the trade imbalance.

Mairmark is now finding markets for machinery and chemicals from the Eastern Bloc countries, which Shadwell says prefer to deal with New Zealand-owned companies.

Shadwell is confident of Mair's future once these problems are ironed out, and the only restraint to higher profits will be fluctuations on the world market.

He says more attention is being paid to processing more raw materials — from wool and skins through to meat and other by-products — and a gradual diversification from the staple wool products.

Mair executives are also widening their act, and are now boning up on the intricencies of world currency dealing and exchange rates. The group handles a large cash flow of overseas funds, and since controls were removed the company has to ensure it isn't caught out by changes for the worse.

Like others of his executive team, Shadwell travels extensively overseas, sometimes for up to three months at a time.

Though his family of three are now carving out careers of their own, the disruption of world travel has made it difficult for him to pursue outside interests.

He restricts himself to a bit of gardening at home and time fishing or boating on Lake Benmore, where he has a bach.

Shadwell sums up his success as "being in the right place at the right time with the right views." He intends passing on that timing to those who follow him.

Shipping cartels under fire from exporters

by Warren Berryman

PRODUCER board contracts with shipping cartels are coming under fire from farmers and manufacturers now that this country has opted for an export-led recovery.

*Soaring freight rates con*tribute heavily to the $1 billion invisibles deficit and undermine the export drive.

The basis on which cartel freight rates are established has traditionally been worked out between producer boards *and cartels with no reference* to manufacturing exporters who now earn a quarter of our foreign exchange.

But this relationship is under fire from farmers and manufacturers.

A world-wide surplus of shipping tonnage has spawned a host of non-conference lines offering below-cartel freight rates. But producer boards and cartels are determined to ensure that no exporter will have access to these cheaper rates of freight.

Since the export drive threw New Zealand companies from their protection-feathered home market and into the swim of world trade, exporters have learned to their dismay that freight rates are pricing their goods out of world markets. They realise that most of *their foreign competitors en*joy better shipping deals.

The major trading partner for manufacturers is Australia, and trans-Tasman freight rates are among the highest in the world.

The Australian-New Zealand *Businessman's* Council has called for greater competition to the Union Steamship Company on this trade.

Union Steam enjoys a near-monopoly on a trade which is restricted to ships employing New Zealand and/or Australian Seamen's *Union members.*

Other ships ply the Tasman and could offer cheaper freight rates but for the restriction on ships not using *Australasian union members.*

As it is, some goods can come from California via Auckland to Melbourne cheaper than New Zealand goods can go from Auckland to Melbourne.

Containerisation has not been all it was cracked up to be and some exporters are reassessing the advantages of conventional shipping.

Cargo consolidation at major container ports should have led to cost-cutting efficiency. But skyrocketing internal freight costs have wiped out many of the advantages of this consolidation.

Containerisation has meant redundancies for waterside union members who have seen their jobs go onshore to storemen and packers. Lost jobs and falling waterside union membership have contributed to the sort of industrial unrest that ranks our container ports equal bottom with Australia on the efficiency scale.

ABC Containerlines is spearheading the attack on the cartel-producer board combine. And as court battles challenging the producer board's restrictive trade practices draw near, Federated Farmers has called for 20 per cent of exports to go to non-conference lines like ABC

A question of loyalty — or competition

CONFERENCES have invested heavily to provide a regular reliable container service for New Zealand.

But because there is a world-wide overtonnage in shipping, *freight bargains* abound for those free to play the market.

The conferences can argue that over the years they have *provided loyal and dependable service.*

But a $1 billion invisibles deficit is eating into our export earnings.

The question bluntly is: can we afford loyalty to the cost-plus conference system *when our trade competitors* are playing the market?

Manufacturers, who earn a quarter of our foreign exchange, have no voice in *freight negotiations* with the conferences.

Producer board cargoes provide the bulk necessary to maintain a regular service. Manufactured cargoes, largely ride on the back of producer board cargoes.

Freight rates negotiated between the boards and conference members determine the rates to be charged for manufactured cargoes.

The total cost of running a ship is split roughly among those providing the freight. *Bulk cargoes go at a lower rate*, manufactured cargoes at a higher rate.

A containerload of milk powder will be carried at about one-third of the freight charged for an identical container filled with the same *weight of manufactured* goods shipped as general cargo. Such arrangements operate worldwide

If the ship was filled only with containers of milk powder, the freight probably would not cover the cost of *running the ship, much less* leave a profit for the shipping line.

Shipping companies therefore need a mix of cargoes bulk cargoes going at cheaper rates to make the run worthwhile, topped up with *cargoes at a higher freight rate.*

But manufacturers are never invited to discuss what their "fair share" of the cost of running the ship should be.

Large manufacturers can negotiate commodity rates for their products with the conferences. *Small manufacturers* get stuck with the highest rates for shipping general cargo.

The bottom limit, beyond which no manufacturer can go in freight negotiations with the conferences, is established at producer board conference *negotiations.*

In effect, manufactured cargoes, subsidise the low rates charged on producer board cargoes.

Conferences fear non-conference competitors because these lines can scoop up the *manufactured cargoes at discounted rates.* That leaves the conferences with an overbalance of low-rated producer board cargo.

Conference operators accuse these lines of "skimming the cream off the business".

But manufacturing exporters have enjoyed price reductions of as much as 50 per cent when competition forces both freight rates down, as happend when ACE Lines entered the New Zealand trade.

In the past non-conference operators have had trouble getting enough cargo to make a regular service profitable. They have asked for producer board cargoes at discount rates, but been refused.

ABC Containerline w... stronger position than ... conference lines, which ... preceded it in the N... Zealand trade. ABC stand... New Zealand service ... guaranteed bulk cargo ... form of mineral sands ... West Australia to the U... States.

But ABC still needs ... cargo from New Zeal... make the stop in Auc... worthwhile.

ABC owner, R... shipowner Tsvi Ros... claims his line has ... saved New Zealand $... lion in freight rates by ... lower rates and by h... down conference rates.

While *failing to s...* producer board cargoes ... conference operators ... ACT Lines and ABC C... tainerlines have held ... ence freight rate incre... down.

The Meat and Wool Bo... have *cold-shouldered* non-conference operators usually after using their ... cutting offers as a stick to ... down the conference ... *But individual meat and* exporters have sided with non-conference lines.

The Meat and Wool Bo... have statutory authority ... dictate to any exporter of ... commodities, telling them ... whom they may and may ... *ship.*

This "restrictive ... practice" will be tested ... Australian *and New Zeal...* courts.

Clear battle lines ... emerged:

- On one side are the *conferences and the Meat and* Wool Boards backed up ... the most part by the ... owned sector of these ...
- On the non-... side there are the ... Zealand-owned ... wool companies ... *rated Farmers.*

One thing has become ... The producer boards can ... longer be seen to represent ... wishes of the New Zeal... owned sector of the meat ... wool industry that they w... established to protect.

REL offers cheaper rates–but waits for invitation

by Warren Berryman

MEAT exporters could significantly slash freight charges to the United States if *they used conventional rather* than container shipping.

Break bulk operator Refrigerated *Express Lines* (A/Asia) Pty Ltd, owned by Japanese and American interests, offered to carry our meat to the United States at a 15 per cent saving last May. The Meat Board turned down the offer.

*REL, which wanted to ser*vice the out ports of Napier, Timaru, and Bluff, is still interested in New Zealand.

REL managing director Stuart McAllum, in Auckland recently, said the line was still interested in carrying New Zealand *meat and fruit. But he* said his company would not come to this country, as ABC Containerlines did, without an invitation from the Meat Board.

Should REL get the nod from the Meat Board, McAl*lum said his company would* be represented in this country by Auckland shipping magnate, Vince Kean.

REL is battling to retain its 15 per cent of the Australian-United States meat trade.

The counterpart of the Meat Board, the *Australian* Meat and Livestock Corporation (AMLC), took away *REL's designation as a meat* carrier last year.

At that time REL was carrying 15 per cent of Australian meat to the United States at $A 32 a tonne less than conference rates, servicing the out ports of Darwin, Broom, Cairns, and Derby.

REL was paid a $25 a tonne subsidy to serve these remote ports. With REL banned from the trade, conference container operator *Atlantraffic* will receive $78 a tonne subsidy to pick up cargo from *these ports.*

All Australian meat exporters will be the loser because this increased subsidy must be spread among the conference operators.

REL is fighting this move in the Australian Federal Courts and in the American Federal Maritime Commission.

REL's argument is that meat exporters should be allowed the choice of shipping break bulk *or container*, and that the AMLC's decision to restrict exporters to container ships is a restrictive trade practice, contrary to the meat industry's interest.

REL's advantage, as a break bulk operator, was that it could pick up *odd lots of* meat from out ports with only rudimentary facilities and without *the* high overheads involved in container handling or the high cost of internal freight required to consolidate cargoes in main ports.

Australia's internal transport costs are high, as are New Zealand's.

Containerisation is at its *most efficient in a door-to-*door situation.

This is not possible in the *Australasian meat trade* to the United States. When a container of meat arrives at American wharves, meat inspectors unpack it, check and stamp all the contents. The meat then has to be repacked for final delivery.

Ninty-five per cent of meat imported into the USA is unpacked and stamped at the port of entry.

The move to containeris*ation represents a huge capital* investment by shipping conference members. The conferences would like to see this capital protected by a legislated monopoly on the meat and wool trades enforced by the respective producer *boards. This applies to both* New Zealand and Australia.

The AMLC wants all *meat* exports to be containerised. To protect the conference's *investment in* containerisation, it wants to give the conference a legal monopoly on the trade.

A similar situation exists in *New Zealand with the Wool* Board's involvement in the Central Wool Facilities (jointly owned by the Wool Board, shipping conference members, and members of the "wool club").

In some cases the lines *separating the interests* of the meat exporter and farmer on one hand, and the shipper on the other, become blurred.

One of New Zealand's large *meat exporters. W and R* Fletcher (NZ) Ltd is owned by the Vestie Family, which also owns the *Blue Star Line*. The Blue Star Line is a key conference member and part of the ACT (or ACTA) group.

The conferences operating in Australia have been using the AMLC to eliminate competitors, in much the same way *they have used the Meat and* Wool Boards here to evict competitors, like ACE Shipping and ABC Containerlines from the trade.

In 1975 the Australian Meat Board (the predessor of the AMLC) tried to eliminate REL, *Atlantraffic* Express Service, and Maritime Fruit Carriers, from the Australian coast.

REL fought back taking its *case to the* Australian courts and the American FMC. It won a reprieve for three years.

Now the *AMLC* is trying to give REL the boot again, on the grounds that neither the meat exporters nor the American importers want REL in the trade.

But meat exporting bodies from seven Australian states *have already sprung to* REL's defence. McAllum showed *National Business Review* letters of support for his company from most major Australian meat exporters and from American importers.

In this country, the Meat Board seized meat owned by Waitaki NZR when Waitaki threatened to ship with non-conference ABC Containerlines, saving about $5 million a year in freight.

The Wool Board banned ACE Lines and later ABC *Containerlines from the* wool trade, preventing wool exporters from taking advantage of a 15 per cent freight saving.

The Wool Board has also been using its statutory powers to prevent the New Zealand-owned section of the industry *from* taking advantage of "box rates" – wool shipped on a per container basis rather than on a per kilo basis. Several New Zealand-owned wool exporters have invested in dense-bailing facilities al*lowing them to get double the* amount of wool into a container.

This innovation could, and has in the past, allowed these companies to get freight rates as low as half that paid by their in-club foreign-owned com*petitors.*

But, in the interest of "uniformity", the Wool Board is eliminating the New Zealander's advantage over *the foreigners where it still* exists.

The Wool and Meat Boards support the conferences because they provide a regular and reliable service to many ports.

Conversion to containerisation has been expensive. And the conferences want this fixed capital protected by legislated monopoly on the trade.

Containerisation has many advantages. But wool, for example, is easily unitised without the cost of containerisation, when dense bales are strapped down to pallets. If wool can be shipped from out ports near the area in which it is *produced*, consolidation costs and high internal transport costs could be obviated.

New Zealand ports, with the best modern equipment, often move containers at only one-third the rate of overseas ports.

Container ports are often congested. Frequently container ships wait offshore while conventional ships quickly unload and load.

Key to much of the problem with containerisation is the industrial relations problem with the wharfies, sparked off when they saw their jobs going inshore to warehouses manned by *storemen and* packers.

A host of problems inhibit the efficiency of New Zealand ports, but the root of them is watersiders' fear of losing their jobs.

A container can be un*packed at less than a quarter of* the cost onshore if the work is not being done by wharfies. This factor is forcing many importers to return to conventional shipping.

So far REL's involvement in New Zealand has been *restricted to fruit exports* for the Apple and Pear Board. This was about two years ago, and has not been repeated.

McAllum said the benefits of break bulk shipping were great in Australia, but would bring even bigger benefits to New Zealand meat exporters, if REL were allowed into the trade here.

REL wants to service the out ports, picking up meat in non-containerised odd lots near the areas where the meat is produced, cutting back on internal transport costs.

One major advantage, McAllum said, was that the New Zealand out ports were *relatively efficient.*

The relative cost of loading or *discharging* break bulk cargoes in various ports were, he said, as follows:

- 1000 tonnes a day at US$25 a tonne;
- *Australia 350 tonnes a day* at $60 a tonne;
- New Zealand 5-600 tonne a day at $40 a tonne.

McAllum said the American experience has shown the industrial relations advantages of break bulk shipping. American wharfies, he said, realised break bulk ships provided jobs, and to keep these jobs they had to make the ships pay.

McAllum said his past experience, loading apples at Nelson, convinced him the port of Nelson was up to the "highest world standards" when it came to loading break bulk cargoes.

New Zealand watersiders may respond in the same way their American counterparts did, if they saw break bulk shipping bring jobs back to the wharfie.

Union leaders might wish to protect these jobs with a greater degree of co-operation than has been given to container operators. Recent trends show a fall off in wharfie union membership and a growth of Storemen and Packers as containerisation shifted the work load from the wharves to warehouses on shore.

Regarding cost of shipping. REL's arguments in Australia parallel those of non-conference operators in New Zealand. REL's freight rates are cheaper than the container operators.

The major point McAllum made was that the freedom to choose between modes of shipping, injected an element of competition, that kept freight rate increases to a minimum.

McAllum pointed out that Australian freight rates to the United Kingdom, where the *conferences* have a monopoly, have increased by 65 per cent over the past three years.

In the United States trade where REL has been com*peting, freight rates have in*creased by only 25 per cent over the same period, he said.

*Unlike the freight rate cut*ting competitors, vying for a slice of the New Zealand trade, REL is a conference member. But, McAllum said, the conference had its "48 hour rule" which allowed REL to reduce its rates of *freight at anytime so long as it* gave 48 hours notice.

Dense baling . . . more than one way to transport wool.

Varsity funding: taking the glint off ivory tower

by Shane Cave

"THE quinquennium is sufficient to ensure the smooth running of Universities". So said the Minister of Education, Merv Wellington.

The quinquennium, the five-year period of the Government grant which gives universities their operating funds, was leaked to the news media by the University Students Association.

It shows that those who live in the ivory towers are in for a bout of dieting.

The funds are divided up by the University Grants Committee among the seven universities. Funds for capital works are not included in this grant.

In the past, the problem has been the painful rise in the cost of non-salary items — equipment, books, energy and telephones.

Increases in staff salaries are made up by the Government, as in Government departments. But other costs have steadily gnawed into the financial entrails of the hallowed halls.

To cope over the past five years, the universities have simply left academic positions unfilled and used the money to pay for non-salary items.

The cutback has been such that 550 academic positions provided at the beginning of the quinquennium remain unfilled, and the staff student ratio has gone from 1:10.5 in 1974 to 1:12.3 in 1979.

Those ratio's would not be tolerated in comparable institutions elsewhere. In Britain for example, it is 1:8.6.

The Government has recognised what a tourniquet non-salary items have proved and the UGC can now apply to the Government for increased costs of this sort to be made up, with the complete grant to be reviewed if student numbers exceed predictions.

Merv Wellington . . . quinquennium is sufficient

Judging by the way inflation is provided for in the Department of Education universities can expect about 60 per cent of their increased costs.

But last year, $3 million promised to the universities in 1978 was withdrawn.

The universities may well look forward to playing Oliver Twist to the Government's Dickensian cook.

As for staff levels, 80 more positions are planned — half the number estimated by the UGC as necessary to keep the staff: student ratio at its present level, which is already unacceptable by many foreign standards.

Victoria University's Accountancy Department does not take in students until their second year at university, using success in other subjects as a filter. The department does not allow students to cram stages one and two accounting into one year.

But Wellington states: "The increase of 80 (new staff) over the next five years will be quite sufficient to keep the universities running".

The problem is exacerbated by the attraction of private-sector employment in fields like accounting and computer science. The going rate for staff is high, as is the popularity of these subjects.

The cost of the university system includes money paid to university students themselves. Without bursaries, a tertiary education and access for many to professions and relative financial security would be the preserve of hereditary wealth rather than intellect and merit.

In recognition of this, Wellington states: "The Government is committed to open entry to university" and, "the Government is determined to make university education available for those who . . . may find it difficult".

But the Minister is on shaky ground. In 1976, the standard tertiary bursary (STB) was introduced for all students at tertiary level, Polytechs included, provided the student had the appropriate entry qualifications. If the student could do the desired course and still live at home, a lower bursary was paid.

Inheriting this system from the Labour Government, today's National administrators decided such discrimination against students who lived at home was unfair and changed it in 1979.

In that year 55 per cent of bursaries included the boarding allowance. At undergraduate level, this meant $30 a week for the usual 37-week academic year.

This year, under the new tertiary study grant, all students get $23 a week.

Wellington says of the new grant: "There has been a change, one for the better".

The $7 a week drop, with 16 per cent inflation, can be compensated for by claiming up to $17 a week on a hardship bursary, to get this, the students and their parents are subject to a detailed examination of their assets and income, the level of parental support for the student and if there is none, the reasons why.

The background is not thrilling.

In 1971, 82 per cent of seventh-formers enrolled at university. By 1978 that had dropped to 63 per cent.

The appeal of polytechnics may provide some explanation for the change, but as always money cannot be ignored.

Wellington states: "The Government is determined to make university education available for those who ... may find it difficult".

Perhaps the most telling indication of the health of our universities is in the area of equipment. It is too old.

Dr John Peet, a lecturer in chemical engineering at Canterbury University, observes: ". . . how are we to keep teaching standards up when we teach the students to use and understand equipment that is so old they'll never come across it in industry".

In the engineering school there, is more than $7 million worth of equipment, 85 per cent of which is more than 10 years old. With the technological developments of the past 10 years, specially electronics, that equipment is obsolete.

Canterbury on its own has $14 million worth of equipment and the quinquennial grant provides for $1 million a year to be divided up among seven universities.

And Wellington states: "The quinquennium is sufficient to ensure the smooth running of universities"

The Quinquennial Grant
(Inflation: 16 per cent)

Year	Grant	per cent change
1979/80	$124.6m	
1980/81	$129.9m	+ 4.2 per cent
1981/82	$129.9m	- .5 per cent
1982/83	$128.3m	- .7 per cent
1983/84	$127.1m	- .9 per cent
1984/85	$125.8m	-1.0 per cent

Undergraduate student bursaries

Year	Boarding bursary	Bursary without	Inflation
1976	$24 a week	$13 a week	Dec 15.6 per cent
1977	24	13	Dec 15.3 per cent
1978	26	15	Dec 10.1 per cent
1979	30	19	Dec 16.5 per cent
Tertiary Study Grant 1980	$23 a week		March 18.4 per cent

But if the glint has gone from the ivory: so what?

by Shane Cave

IN refusing to acknowledge the cutback in university funding when evidently the ivory towers are not as well off as they were, Education Minister Merv Wellington seems to be making a rod for his own back.

It would clearly be easier for the Minister to acknowledge the situation, rather than be secretive while accusing the Students Association of clandestine behaviour by revealing details of the quinquennial grant.

With the truth acknowledged the debate would then become, appropriately enough, one of degree. The question should be: In a time of economic hardship, how much can the country afford for universities?" — a far more productive debate than: "do universities get as much money as they did?"

If the Minister is not prepared to publicly engage in this debate, at least the universities are with a committee chaired by Canterbury Vice-chancellor Professor AD Brownlee reviewing the future development of our universities.

Universities are relatively cheap to run. According to the vice chancellors' committee (who the Minister says include "the responsible people with whom I deal"), the cost of educating a university student is quite cheap for a tertiary institution.

Cost for year

University student	$3379
Polytechnic student	$3284
Teachers college student	$8125

By international standards, our cost per student is minimal — half that of Britain and that of Australia. Yet standards of education are comparable.

As for student numbers, OECD figures indicate that most western countries have a lower percentage of their 21-year-olds as full-time students than New Zealand

There appears then to be little flab in our university system.

Some improvements can be made. The Minister wisely suggests offering courses with small student numbers at fewer universities.

But given the current low cost of the system any further cutbacks will most likely mean a decline in university standards.

If cutbacks mean a fall in standards, what happens then? What social and economic contribution do the universities make which would diminish with less money?

Graduates into the professions are expected not to be simply technicians of the law, accounting or medicine but — as Ashley Grant, a regional manager of the National Bank, said at a forum on the role of the university last year — "We are looking for future executives. We don't want high-grade book-keepers."

A university education, for the professions or not, is supposed to be one of the mind, not simply of the memory.

To evaluate universities in terms of graduates and cost per student is too narrow. For the $3379 for each student there is considerable research done each year.

The cost for this research is very low, because much of the equipment is already available. It is a teaching,not a research cost and the staff, and in many cases the students, doing the research are already paid to study or teach.

Some of the most topical research is into energy production and uses.

At Canterbury University, research into methanol production and use has been going on since 1974, when the energy crisis became more important than the All Blacks.

A methanol plant was designed with capacity of 1200 tons a day. That's the same capacity as the current Petrocorp scheme.

Work has also established the most efficient use of the methanol, as a petrol blend, which research leader Dr Brian Earl estimates could have saved between $50 and $60 million a year on imported oil.

But this was not all pie in the sky. The estimated economies of the plant were comparable with estimates of a viable plant made by the prestigious Liquid Fuels Trust Board.

At Lincoln College, in conjunction with the work at Canterbury and commissioned by the LFTB, the growing of beet is being studied for the production of alcohol fuels. How it should be planted, harvested, transported and stored are all being looked at as are the plant's water and soil needs and the details of its fermenting.

Of immense significance to our steel industry, work done in Auckland Universities Geology Department has shown that our iron sand reserves are twice as large as previous estimates.

On the energy front, much detailed research is being done on the development of an electric car, which could further limit our oil dependence.

For the farmer, and hence the national pocket, a vaccine is being developed to counter a parasite which causes one-third of all abortions in sheep. And this is just a sample of the research.

As for the social benefits of university research, much is of everyday use. The Agricultural Economic Research Unit at Lincoln brings landowners, aging, overworked or elsewhere involved, into contact with farmers of skill and experience, but no land.

The unit then provides research facilities into the legalities and economics of share-farming or profit sharing, and the possibilities of land use changes.

A one-man sheep and cattle farm could then become a two-man sheep and cattle farm with perhaps an orchard replacing some of the pasture.

Rural loneliness is a real problem and this sort of thing takes the ivory towers to the people.

Elsewhere in the country, research has looked into the distribution of, and access to, doctors, and the social effects of adoption.

Cutbacks in spending will mean less research as staff face bigger classes and spend more time teaching.

The Association of University Teachers fear poorer universities may well limit the possibilities for future economic growth.

But it is not possible to fully evaluate universities in economic terms. To do so could see disciplines like English, French, and Anthropology get as much support from the Government as does the Socialist Unity Party.

Such extremes are unlikely, but academics see a real danger in selective funding.

To impede any field of intellectual endeavour is to reject a corresponding value. The study of:

- English or French, indicates a value of language, and the way different people communicate their joys and fears:
- History indicates a value of the knowledge that life can be played out in different ways with different costs:
- Religions indicates a value of understanding different people's priorities, motivations and moralities.

Cuts may have to be made, but arbitrary financial cuts threaten not only the academies in their ivory towers, but also a major symbol of the values associated with their study.

History frantically waves lessons about intolerance of values: The Inquisition is as much a scar on Christianity as Pol Pot is on Communism.

Insidious cutbacks in the wrong places could presage the return of a milder form of the same intolerance.

An environment tolerant of free thought is as important to the scientist as it is to the English lecturer. Galileo was imprisoned for supporting the theory that the earth orbited the sun: Pasteur was ridiculed for his meticulous hygiene. Now we scorn their opponents.

Intellectual intolerance could limit both social and economic growth.

The university system may not get as much money as its people want. The economy will only provide so much.

As microprocessor specialist Dr Mike Dewe observed: ". . the money shouldn't just be there, it must be justified."

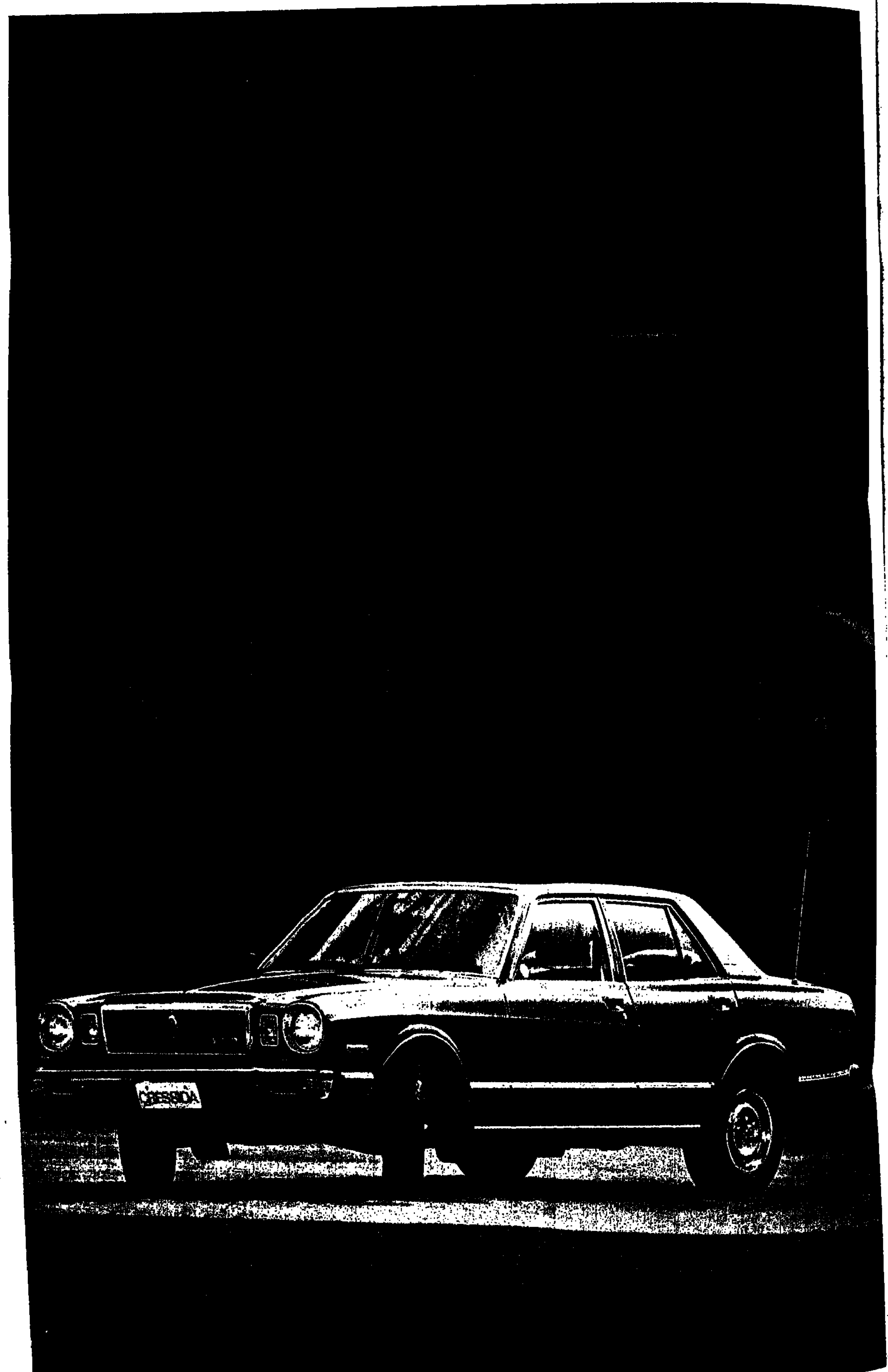
But, the cost of neglecting universities could be very high, and one which dollars may never fully tell.

US regulates foreign banks

THE Federal Reserve Board has adopted regulations that will make some American branches and agencies of foreign banks subject to the same reserve requirements and interest rate limitations that apply to domestic member banks.

The regulations, which become effective in September, will apply to all US branches and agencies of foreign banks with total worldwide assets of more than $1000 million. The reserve requirements will be phased in over a two-year period.

Federal Reserve officials say the regulations on reserve requirements and interest rate limits will apply to some 143 foreign banks with 287 branches and agencies in the United States.



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Cressida.

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Likely sales drop complicates butter pricing

by Belinda Gillespie

AFTER passing the butter marketing parcel to a reluctant Dairy Board, the Government has called for a Commerce Commission inquiry into the desirability of removing butter from the positive list of price-controlled goods.

Butter prices at manufacturing level were recently removed from price control – the present inquiry relates to wholesale and retail margins. Party applications for those who support or oppose the removal of price control will be heard by the commission on May 6, after which a date for the main hearing will be set.

Trade and Industry Minister Lance Adams-Schneider has given the commission until September 30 to report back.

In consumer terms, the removal of price control would mean little, according to a Dairy Board spokesman. The remaining margins are "a minor component" in the overall price of butter.

At its present level of 79c per 500g, the price is not compensating the farmer adequately.

"If margins were increased, and the price of butter raised, sales would drop – the board would be cutting off its nose to spite its face," the spokesman said.

The price of butter is not effectively under Government control, but is actually controlled by the market, he pointed out.

The Dairy Board Act guarantees that the farmer won't be penalised for selling his product on the domestic market. As the Government pulls out its subsidy, the price of butter must go up to the export average, around 95c per 500g.

But the issue is complicated by the fact that such a price increase would cause a dramatic downturn in sales.

The resulting surplus of butter would have to be sold in the export market in areas of the world which don't pay such a good price – and the export average would then drop.

So the final price of butter is a balancing act between the equally sensitive domestic and export markets, with the issue of price control on wholesale and retail margins a minor piece of tidying up in the Government's withdrawal from its role in butter marketing.

Meanwhile, butter sales have plunged since the price went up – mainly because most households stocked up at the old price, the Dairy Board believes.

The board is responding by having "a good look at the whole butter market." And whatever decisions are made, the whole butter market in New Zealand is likely to become more varied and colourful.

Among the probabilities are smaller packs of butter, and fancier packaging.

Different flavours of butter may also be considered – for example lactic butter, popular in Britain and now being exported by New Zealand to Iran. Lactic butter, with a small fermented component, has a slightly sharp taste which appeals to some butter connosieurs.

Whatever happens won't be determined until the effects of the 14c price rise have been fully gauged, and market research has established the negative and positive aspects of butter.

Internationally, flavour has been established as butter's main strength. Price, "health risks" and lack of spreadability are its weaknesses.

EEC told it holds large stake in local economy

by Rae Mazengarb

THE European Community must be conscious of its large stake in the health of the New Zealand economy, Federated Farmers' Dominion president Allan Wright said the other day.

He told the Agricultural Committee of the European Parliament in Strasbourg, that member states had an important financial stake in New Zealand – in direct investment and in official borrowing. But future investment opportunities would depend on the ability of the New Zealand economy to expand.

"In turn this expansion will depend to a very large extent on New Zealand retaining access for its primary products to the European market," Wright said.

Further restrictions on the entry of our products would weaken an economy, already suffering from a serious deteriorating in its terms of trade, while the oil shock has increased the cost of transporting our products to distant markets, he said.

He noted that the overall trade balance between New Zealand and the community favoured the community by $357 million (more than $100 per head of population) and that the community accounted for 24 per cent of all New Zealand's imports.

The New Zealand farmer had made a substantial sacrifice in terms of his access for primary products to the EEC, Wright said. Farming had been the only major export industry consistently competitive in world terms.

Over the last 20 years diversification had reduced New Zealand's dependence on the European market but sales to the EEC still represented about 28 per cent of our total overseas income.

Further attempts to direct production away from the European market have been hampered because of trade restrictions imposed by many countries, Wright said.

Over a period of seven years New Zealand had reduced its butter exports to Britain by 30 per cent; a large portion of our lamb trade had also been diverted. Now 38 per cent was sold outside Europe.

Whereas 75,000 tonnes of beef were sold on the European market in 1970, today New Zealand is completely shut out of that market. Mutton trade has virtually ceased altogether.

Referring to cuts in New Zealand's butter access entitlement, Wright said. "The simple fact is that alternative markets are just not available now, or in the short term for any significant quantity of butter displaced from the community unless the community undertakes a permanent reduction in exports."

The level of continued access sought by New Zealand represented only 6 per cent of EEC production, but "it is vital for the viability of the New Zealand industry," he said.

The practice of many industrialised countries to shut out – or severely restrict – import of agricultural products were only too evident for the wider New Zealand economy, Wright said. "Ten years ago New Zealand ranked fourth on the standard of living scale (on OECD figures, today we are at 20th position and still slipping," he said.

"A further knock to New Zealand's economy at this time could have serious repercussions for the country's ability to import goods from Europe and from other sources," he warned.

Referring to the Government's recent moves to liberalise the investment of overseas capital in New Zealand, he said, "joint efforts to promote further trade in capital flows must be an advantage to both the EEC and New Zealand."

Manufacturers' hard line ignored road deficit

by Bob Stott

THE Manufacturers' Federation has told the Government that unless New Zealand Railways becomes a totally commercial operation within five years, support for the road licensing system which protects railways will be withdrawn.

The federation made that announcement in a supplementary submission to the Ministry of Transport, which has been reviewing the road transport licensing system, and has published details in its journal, the *Manufacturer*.

The manufacturers do not support the Federated Farmers approach to transport licensing, which is to delicense road transport. They believe such a move would impose major strains on the economy and the roading system while the relative fuel inefficiency of road was another factor.

But the federation considered it should not indefinitely support the "inefficiences inherent in a rail system which is forced to provide totally uneconomic services because of political and/or social considerations".

"The management of New Zealand Railways should be given the opportunity to identify those areas of operation which it would be most profitable for them to concentrate on," the submissions said.

"Having defined those areas of operation – for example, bulk, long-haul operations – the NZR should be freely permitted to discontinue other services or, where they are deemed to be of national benefit in social or economic terms, their total costs should be met from a central fund such as the Consolidated Revenue Account."

While concerned about the outside influences which appear to prevent an increase in efficiency of railways operations, the federation reiterates its belief in the potential that those operations have to offer.

"We must warn, however, that our continued support for railways is contingent upon the satisfactory removal of outside influences on railways operations.

"Should no significant improvement in the situation be apparent to us in the next five years, the federation will have no choice but to withdraw its support for rail as a transport mode in New Zealand."

Much of what the federation is saying was included in the NZR document *Time For Change*, published last year.

In that discussion paper, NZR general manager Trevor Hayward saw a need for change following three basic principles:

- To develop and expand those services which are commercially sound;
- To continued those services which provide proven and adequate social benefit – and to spell out the costs;
- To discontinue those services which have no clear commercial or social justification.

Hayward's 1979 annual report, issued some months later, spelled out costs more clearly. That report showed that the "shortfall from commercial requirement" in the case of specific activities was as follows: Suburban rail, $17 million; suburban road, $23 million; long-distance rail passenger, $19.2 million; branch lines, $12.7 million.

That's a total of $51.2 million.

What the NZR has not done, and in all fairness can't, is to demand that the Consolidated Revenue Account should meet part or all of this shortfall.

This column in recent months has spelled out the EEC system of paying grants to European railways for social services, so ways of achieving this aim aren't unknown.

The ultimate effect of the Urban Transport Bill should be an easing of the burden of NZR suburban service defic its.

Curiously, the Manufacturers' Federation summary of its submission does not refer to the road transport deficit. But the Road Transport Association's journal, *Transport News*, states: "Due mainly to submissions by the Road Transport Association, Government has decided to limit the increase (in Road User Charges from April 1) meaning that the National Roads Board will receive only $60 million from heavy motor vehicles as compared to the $80 million previously planned for this year."

In other words, rail's competitors, the heavy trucks, will be paying $20 million less in right-of-way charges than the actual costs which those trucks impose on the routes they use. That's a deficit, as clear-cut as the NZR deficit. Someone else (private motorists or taxpayers?) is subsidising heavy transport to the tune of $20 million a year.

The RTA magazine notes that an annual licence fee on a sliding scale of between $100 and $300 per vehicle may be introduced in the 1980 Budget "to meet this shortfall".

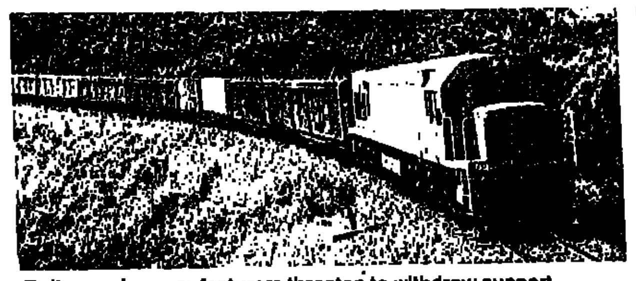
From all this, a solution to the rail deficit dilemma becomes apparent.

First, get that extra $20 million, from heavy road transport.

Second, increase rail rates to produce an extra $20 million, so that the relativity between rail and road rates is unchanged.

Third, pay Railways from the Consolidated Revenue Account for the $51 million worth of social services.

As the rail deficit last year was $66.5 million, such moves as outlined here would get the railways into the black . . . and it wouldn't take five weeks to fix; let alone five years.



Railways . . . manufacturers threaten to withdraw support.

And if you want to give the NZR a really worthwhile profit, wipe the interest charged to rail for money loaded to the NZR to keep the trains running during the infamous rates and charges freeze on the early 70s.

It would be uncharitable for transport users to point out that this scheme would result in increased transport charges of $40 million a year, represented by a recovery of the $20 million road deficit and a $20 million increase in rail rates to match.

If a producer of goods finds his production price is below his selling price, then he is under-charging. If a transport operator finds that the provision of his services is less than income from rates and charges then he's inefficient.

The Manufacturers Federation also has a few words on the distance limit. It proposes that the metropolitan areas of the four main centres should be defined as "free zones" for the purpose of distance licensing.

The measurement of distance for road haulage would take place from nominated stations at the boundaries of each "free zone". Within such zones goods would be at liberty to move with no distance limit until the zone boundaries had been crossed.

As examples, the 150 km limit on a truck heading south from Auckland would be measured not from the Auckland post office but from Papakura at the zonal boundary. Trucks heading north from Wellington would start kilometre-counting not from the city's post office but from Paekakariki.

This, according to the federation, would resolve anomalies and overcome delays in the delivery of goods to suburban areas, and could also be a move in the direction of rationalising numbers of goods stations in the four main centres.

The problem, of course, is that the creation of such zones would add between 20 and 50 km to the 150 km limit on a large number of corridors. The effect would be similar to an extension of the overall distance limit to 200 km because so much traffic is concentrated in areas fairly close to main centres.

There would be a further loss in rail revenue, and there would be a greater use of road transport which would mean greater road wear and so on.

Furthermore, the present distance limit is difficult to enforce – adding another complication would make it even harder to control.

And anyone who thinks the 150 km limit is being adhered to by all truckies needs his head read.

Industrial design

Debris salvage design wins world competition

AUCKLAND design consultant Peder Hansen has formulated the first practical means of reconstructing disastrous areas – whatever the form of devastation – by using existing on-site wreckage.

In the aftermath of a major earthquake, cyclone or whatever, his system would enable local people to construct stable shelters, hospitals and other makeshift buildings from wreckage without waiting for outside aid or materials.

The system, a simple joining method, has been accepted by the organisers of an international design study on rescue and relief associated problems.

Hansen was one of 64 designers to enter the competition.

The design study was organised by the International Council of Societies of Industrial Design, the League of Red Cross Societies and the United Nations Disaster Relief Co-ordinator.

Hansen chose a brief on shelter made from wreckage: "When a disaster strikes a region it reduces housing to a mass of debris making it unsafe and uninhabitable. No practical proposal has yet been presented to the aid agencies that would allow people on the spot to use salvaged material to build their own temporary shelter. Debris offers basic, reusable material. The prime difficulty is joining the different sized and types of material to form a solid framework or even the whole shell of a shelter. What is needed is not a highly sophisticated set of equipment, but small, versatile, heap items that can be readily understood and handled by non-technical people".

The challenge might have been tailor made to Hansen's design philosophy of "appropriate technology and design to meet real needs".

Hansen's successful design submission consists of two joining devices, a steel "clawtie" resembling a giant staple and a "twistie", a length of steel wire for tying.

The two, he says are only limited by the imagination of people using them.

His clawtie comes in three lengths and two diameters. It could be used to join timber of any size or shape, as a brace to stiffen timber frames, as a hole-making tool or as a defensive weapon.

Hansen points out that fending off crazed wild animals in disaster areas is a real concern.

The wire twistie would be used as a tie, twisted into a tight knot with the aid of the clawtie.

Hansen emphasises that both are appropriate to simple village cultural.

"There is dubious merit in introducing technology that a society could not sustain subsequently," he said.

"The sort of materials, methods and technology that we take for granted would be totally out of place for a primitive society trying to rebuild itself".

Hansen recently demonstrated his joining device in Auckland. Both Red Cross and World Vision spokespeople are enthusiastic about their potential in world disasters.

Red Cross local emergency relief controller Bill Ca[illegible] has prepared an outline of the system to be circulated to international aid ma[illegible]. Hansen has handed the design over to Red Cross.

Design needs undermined by manufacturers

INDUSTRIAL design consultant Peder Hansen works from a small but functional office in the Waitakere bush suburb of Titirangi.

The impressive list of projects, past and projected, gives the impression of a man with a love for simplicity – and an abundance of optimism.

Hansen is one of a handful of industrial designers able to sustain their own practice in New Zealand.

Awards, local and international, are part of his professional history.

Danish born, he has been in New Zealand since 1959 and in the design business for 23 years.

His design experience is extensive – from product design and interior work to buildings and teaching Auckland design students.

After his success with the disaster-relief submission, he learned that a fabric design, worked on with a former student, had been accepted for exhibition in the United States.

Hansen exudes confidence and articulates a strong conviction of the importance of design to our future particularly in manufacturing.

Design management, he asserts, is the long overdue member of the executive family.

He is pragmatic too, and wryly observes that he has had to produce a manual explaining what design is all about for first-time clients. After years of legwork, he knows that in the minds of many manufacturer he is offering pies-in-the-sky rather than something that can contribute to their business.

"But the penny is beginning to drop with the local manufacturers. They are starting to realise that if they can't be cost-competitive on the overseas markets they must have the edge in quality and design. They are realising that a designer is not a bloke they pull in at the last minute to titivate a bad product," he said.

He has no patience with the many manufacturers committed to copying overseas products – often less efficiently – or who hack around an imported product to suit the local market, without eliminating the bad features, long since rectified by the original maker. It is not an approach that is likely to lead to export success, he argues.

Discussing design philosophy (or lack of it) in New Zealand, Hansen wrote in *Designscape:* "I experienced an acute cultural shock when I recently discovered that a New Zealand manufacturer's products were copied from Taiwanese copies of rather unsympathetic pseudo-romantic copies from the United States of designs about a century old.

"The decision to produce and market a product here in many cases is the re[illegible] either a company ex[illegible] picking up a pamphlet overseas, or a desire to [illegible] short-term sales ca[illegible] started by another ma[illegible]turer . . . or a desire to [illegible] machinery ticking over.

"Product research, design and development should be managed on a long-term basis like finance, production and marketing.

Peder Hansen . . . design gives the quality edge.

"A whole generation of top executives sol[illegible] believe that money in [illegible] amounts should be spent advertising a hapless product instead of on research, design and development of a product which will stand on its own feet in a crowd.

"Design input is often the last additive, the panic measure given to a product born as a result of illogical and confused processes."

He believes a major rethink in our approach to industrial development is well overdue. Appropriate technology and appropriate scale of operation, he says, are the key factors.

He advocates flexible small-scale industry and points out there is little use in gnashing our teeth over the "short-run dilemma".

"Our production runs are too small and stretched over too many years to be viable – hence the inflated cost structure of most, if not all locally made industrial products.

"Let's create smaller, versatile and flexible industries producing well designed quality products for real peoples' needs. There will always be a place in the world market for good products! We have the skills and the knowledge here to produce design and quality competitive goods."

Leather import curbs rejected

PRESIDENT Carter has rejected restraints on United States imports of leather-wearing apparel, at least partly because restraints "would be inflationary, at a time when fighting inflation is a national priority."

The President had concluded "it is doubtful whether import relief itself would enable the domestic industry to compete effectively, and become more competitive with imports, once relief expired".

Special feature

Magazines in the 1980s

Why the magazine business is booming

> THE following three articles are from the edited transcript of the keynote address by Joe Hanson, editor-in-chief of *Folio* magazine, at the Magazines in the 1980's seminar held in Wellington on April 16 and sponsored by National Business Review.

THIS is a great time to be in the magazine publishing business.

For the past four years, United States magazines have enjoyed their greatest period of growth. Advertising revenues have climbed between 13 and 20 per cent for each of those years. In 1979 total measured advertising revenues for consumer and business magazine exceeded 47 billion dollars.

Business magazine advertising revenue has shown a healthy advance of between 25-30 per cent each year for the past 5 years. It passed the $1 billion mark in 1976 and just reached $2 billion in 1979. Industrial advertising budgets in the US were up an average of 23 per cent in 1977, 1978, and 1979. But the growth has not only been in advertising. Circulation revenues have grown so rapidly that, for many magazines, they now equal or exceed advertising revenues. On news-stands and in shops and supermarkets the story is the same. Although cover prices have risen dramatically from an average of 30c a few years ago to more than $1.00 today, single copy sales through 1979, continue to set records both in terms of volume and dollars. Magazines have successfully exploited the supermarket checkout counters. Retailers are finding that magazines are one of the highest profit items they can carry. Magazines provide more profit per square foot of rack space than any other product.

Of course, there's another side to the coin. Over the past several years US magazine publishers have been forced to absorb substantial postal increases. For many categories of magazines, the increase has exceeded 400 per cent. The supply of coated paper has not been able to keep up with the growth of magazine pages, and the cost of paper has almost doubled in the past few years. Some publishers are still more concerned about availability than cost, and, as a result, have turned to European suppliers, at even higher prices, to fulfill their requirements.

Despite these and other problems, US magazines have had a spectacular growth in the past few years. It is no secret that the magazine business is so attractive in the United States that publishers from Europe, Canada, Australia, and Japan have been entering the market in search of profitable opportunities. *Geo Parents*, and *New York*, are examples of magazines that have made the headlines in this regard.

- Maclean-Hunter, Canada's largest magazine publisher, now publishes seven business journals in the United States
- Morgan-Grampion of England has purchased Buttenheim Publishing of the US, as well as several business publications from McGraw-Hill
- IPC of England now owns all of Cahner's Publishing of Boston.

US broadcasting organisations have followed suit:

- The American Broadcasting Company, in addition to publishing a number of consumer magazines, now owns Chilton Publishing, Hitchcock and Miller Publishing
- CBS is heavily in the magazine business with its ownership of Fawcett (*Woman's Day*) and over a dozen other magazines
- MCA – movie producer of Star-Wars – owns *The Runner* magazine
- Your neighbour Rupert Murdock is the owner of *New York*, *New West* and, now, *CUE* magazines

But rather than reporting on the success of US magazines my objective is to explore some of the reasons behind this success and their implications for the future of world publishing.

In preparing these remarks, I spoke with more than 20 leading magazine executives in the United States. Rather than quote them individually, let me give you a brief overview of the general consensus of these top-level publishing professionals. There were eleven principal reasons cited most often, when they were asked about the current health of the magazine business:

1. The relatively positive US domestic economy through 1979, and the resulting growth of advertising budgets. Though economists have been forecasting a US recession for the past three years, we are still not sure that one is yet occuring.

2. The high cost of TV advertising as compared to magazines.

3. The growth of special interest and regional magazines, as well as demographic and regional advertising editions in national magazines, has contributed strongly to advertising efficiency.

4. Advertising rates in magazines have increased at a much slower rate than other media, especially TV, making magazines more competitive.

5. The clutter of broadcast advertising. The success of television in attracting so much advertising has itself diminished the effectiveness of many of those ads.

6. A better editorial product! Magazines are more responsive to readers today than ever before.

7. Promotion of magazines today is more effective. Magazines have learned to use other media, like television and radio to promote themselves. Direct mail has become more and more sophisticated each year with magazines being a prime beneficiary.

8. Improved management of US magazines was often cited. (Of course, one would expect the professional managers to whom were speaking to cite better management as a principal reason for the current success of their magazines.)

9. The tapping of new revenue sources. Many magazines have discovered that they can make money in related ancillary businesses.

10. Magazines have grown because US tax laws are favourable to the magazine business. The resulting availability of investment capital for magazine start-ups is in part responsible for the record

Continued on Page 32

Continued from Page 31

number of new magazines being announced each year. The profit potential of many new magazines has also encouraged major publishers to reinvest their profits into additional new magazines. In just the past three years such magazines as *Life, Self, Us, Omni*, and almost 750 others have commenced publication.

11. And finally, many of the publishing executives with whom I spoke pointed to the increased acceptance, by the public, of magazines. Whatever the reason, be it higher educational levels, a more affluent population, or the growth of special interests, due to more leisure time, the fact remains that the US population has been willing to support more and more magazines that deliver information on more and more of their favourite topics. Magazines are filling the "need to know revolution" which has been sweeping the US.

These eleven reasons are the most often cited of the explanations of the current good health of magazine publishing. But they don't tell the whole story.

More signficant are the new strategies of the magazine business. Like other successful businesses, US publishers have guided their growth by formulating strategies to respond to changing market conditions. It's the success or failure of these strategies which will ultimately determine the success or failure of magazines to cope with our changing world.

I would like to describe how publishers are doing things differently today and what the implications are for the future of magazine publishing. These are my perceptions of the three major strategic changes that have taken place in magazine publishing during the past five years.

The first strategy relates to how magazines have reacted to television.

Not very long ago many observers predicted the demise of large national magazines because of the enormous power of television to attract advertising away from them. They pointed to the death of *Life, Look*, the *Saturday Evening Post*, and *Collier's*, in the early 1970's, as an omen of things to come. But these observers confused the loss of a few battles with the loss of the war.

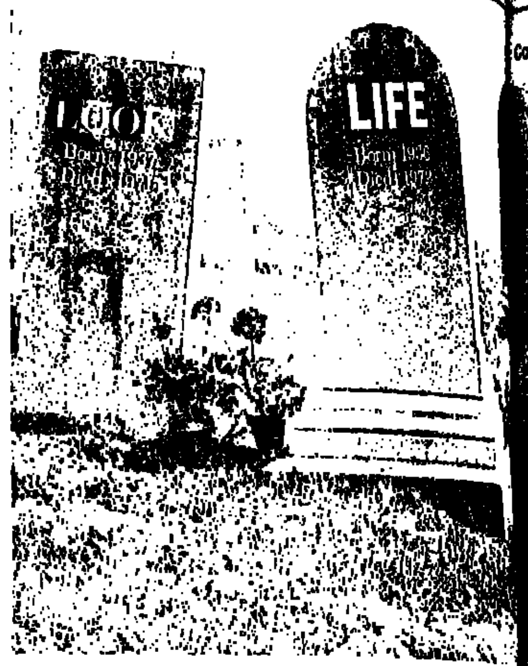
Magazines did not roll over and die. The reasons they did not do so lie largely in a strategy, on the part of publishers, to reposition magazines while, at the same time, enhancing their efficiency.

This "repositioning" I refer to has been best expressed in the now famous "Media Imperatives" program. This campaign, sponsored by the Magazine Publishers Association, showed advertisers conclusively, that TV, when used alone, is never the most efficient way to reach the market for any given product. The theme developed in "Media Imperatives" is that magazine must become part of every advertiser's media mix, that the use of magazines, in combination with TV improves the total reach and cost effectiveness of any advertising campaign.

The "Media Imperitives" programme established that, for research purposes, the general population could be effectively viewed as consisting of four segments:

- 1) Those who are heavy viewers of TV and very light readers of magazines:
- 2) Heavy readers of magazines and light viewers of TV:
- 3) Those who are both heavy viewers and readers;
- 4) Those who are both light viewers and readers.

The study then examined the educational occupational and income levels of each of these segments as well as their purchases of major categories of products and services: automobiles, travel, beverages, homes, sporting equipment, breakfast cereals and dozens of others.



Not surprisingly, it was clearly established that heavy readers had higher educational, occupational and income levels than heavy viewers. It followed, and the research demonstrated, that readers bought more, per capita, of advertised products: research showed that readers, although somewhat outnumbered by viewers, are better prospects for advertised products.

The research results were then fed into advertising agency computor models. What emerged was exceptionally clear documentation of the earlier stated premise. By properly allocating advertising budgets, between TV and magazines in every case — reach and frequency were improved over the use of TV alone. And, perhaps more importantly, penetration of the most desirable prospect segments were substantially increased.

In essence, the "Media Imperatives" campaign has effectively demonstrated to major advertisers, through the use of significant and thoroughly documented research, that they need the many millions of magazine readers that cannot be efficiently reached by TV. Thus, magazines, have, in many cases, stopped competing on TV's terms of total audience, and cost per thousand household's and gross rating points, and have put forward the logical alternative that TV is great, but man does not live by TV alone.

While general consumer magazines were involved in this repositioning, the special interest and regional magazines, on the other hand, have been able to demonstrate an efficiency story unmatched by any other medium. They established that alls... is a great mas... medium, magazi... ticularly special... magazines, are the gr... audience medium w... proliferation of new p... in the US and the high... marketing, efficiency... consideration for adv... For many products... more efficient a... medium than the sp... magazine. Ph... equipment in... magazines, food in... service and food m... sporting equipment... magazines, and local... city magazines, have... it possible for mag... compete, market by... against the mass aud... TV

In summation of... strategy, many US p... have found the nic... which to compete aga... often work with. TV... viewed as the ultimate... to the main revenue b... magazines. TV is no... regarded as a total sol... most sophisticated ... tisers.

This brings us to the... strategy. In addition... diversion of ad dollars... print to broadcast, pu... were faced with a comb... of uncontrolled cost ... tions.

Let me set the stage... few simple facts:

- 1. As mentioned ea... lier, postage for mail... magazines to subscrib... has increased by as much... 400 per cent.
- 2. Postage for mail... circulation promotion... acquire new subscribe... and to obtain renewals...

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...eased by a similar ...ount.

- 3. Paper and manufac...ring costs have skyrock...ed.
- 4. Inflation has taken ...toll both in labour and ...er operating costs.

Publishers, seeing their ad...tising erode to TV were ...vinced that they would be ...able to pass along these in...eased costs to the advertiser ...the form of higher rates.

This concern virtually ...ced the second strategy ...on publishers. It came ...ut not from genius, but ...m an apparent lack of ...ice. The magazine has ...n forced to turn to its ...der for literally hundreds ...millions of dollars in addi...onal revenues.

As a result, many publishers have completely changed their perspective about the position of the reader in the magazine business. Prior to the onset of this strategy a magazine's readers existed primarily so that the publisher could sell them to advertisers. In the US this was referred to as "the numbers game". A publisher acquired a given number of readers, almost without regard to acquisition or fulfillment costs, in order to establish an advertising rate base.

The publisher then sold to advertisers on the magazine's capacity to deliver those readers, much like free commercial television sells an audience to its advertisers. Even if publishers had to virtually give away their magazine just to meet the ad rate base, they often did so. (The situation, in fact, faced by the old *Life* and *Look* magazines.) The cost of maintaining that circulation was considered an overhead — a cost of doing business with the advertiser. (Of course, there were some notable exceptions to this publishing format, the *Reader's Digest* prominent among them.)

With most publishers convinced that advertisers would be unwilling to pay the price for the increased cost of publishing, magazines went after readers' dollars with remarkable effectiveness. Newsstand prices were doubled, in many cases, over a short period of time. Subscription prices rose so rapidly that a magazine which charged an average of $4 for a subscription in 1972 is charging $10 ($15) or more for that same subscription today. Publishers were in a do or die situation: they believed that either readers must contribute substantially to publishing revenues or there could be no magazine business. The magazine, in the US, as we know it today, owes its existence to the fact that readers are willing to pay a reasonable price for the magazines they want to read.

With the reassessment of the reader as a revenue source came other realisations. Suddenly magazines began looking at their readers, not merely as an advertising rate base, but as a consumer market segment — and they recognised that, like any market, readers could be merchandised to directly.

Publishers discovered that readers would not only buy their magazine but also books and book clubs, T-shirts, reprints, back issues, travel packages, insurance, and dozens of other goods and services related to their specific market segments.

This second strategy saw the transformation of the magazine reader from a number, resold to advertisers, to a direct profit centre for the magazine. Although many publishers initially doubted their ability to raise their prices to the reader, market conditions forced them to take that risk and they watched it pay off, right before their eyes.

I've covered the first two strategies — one focusing on advertising, the other, subscription, or reader revenue. This brings us to the third strategy that US publishers have utilised on the road to their present happy state. This strategy is more subtle than the preceeding two and focuses on the utilisation of a marketing as well as management rool. The tool is the computer.

Let me describe a fictional but completely reasonable scenario. One fine day, a publisher decides after careful computer modelling, of thousands of alternatives, to offer a special rate for a trial subscription to his magazine. So, he calls in his circulation director and asks him/her to test this new rate. The circulation director instructs a computer to select random samples of several mailing list for a test programme for this new trial offer.

The mailing lists are, of course, maintained on computers and contain detailed demographic characteristics regarding each individual on each list. After the computer automatically eliminates duplicate names between the test lists, it then prepares mailing labels including codes to identify each list. While one computer prepares the label data, another controls an ink jet printer which creates a personalised subscription offer for the test letters. Then the computer sorts the mailing by exact house order, on each street, on postal carrier routes, so that the publisher receives a special lower mailing price from the post office.

Well, the test goes out and as the results come back, a computer literally reads the responses, tracks the source of the subscription, correlates and analyses the responses, by segment of the lists, and informs the subscription manager of how the test is doing. While the manager is comparing the responses, the computer sends out an invoice to the new subscribers and transfers the label data to the master circulation file.

Of course, the computer will also handle the billing series, automatically delete the bad pays and, like any good computer in a subscription department, soon start to prepare the renewal series. As time progresses, the computer will track how well our test subscribers renew, and, wherever the test lists did well computers will be used to mail out more offers to the unused portions of those lists.

This story only tells a small part of the computer magazine revolution. I could go on and on about computer editing terminals, computerised typesetting, computerised colour separations, computerised satellite transmission to remote printing plants, and of course, the Universal Product Code on the cover of every US newsstand magazine which has the potential to dramatically improve the efficiency of single copy (news-stand) sales.

The computer has revolutionised the magazine business. It has helped us to do our job better, at lower cost, with a marketing precision never dreamed possible even a few years ago. Thus, the third and final strategy that US publishers have developed is the strategy of information management by computer.

Taking a leaf from *FOLIO*

AN interesting insight into the new economics of magazine publishing on a very small scale, may be gained by looking briefly at *FOLIO*, Joe Hanson's own magazine. In some ways *FOLIO* represents a microcosm of what's happening in magazine publishing today. Hanson explains:

FOLIO's circulation is among the smallest of any magazine in the US. We have about 9,600 publishing executives subscribing.

Although publishing economics differ in other countries, US publishers often ask me how *FOLIO* can survive with fewer than 10,000 subscribers.

The answer is relatively simple and nobody knows it better than our readers. *FOLIO* derives almost 75 per cent of its revenues and virtually all of its profits by serving our audience with a wide variety of information services other than the magazine.

Many of the same readers who pay $32 a year for a subscription to *FOLIO* also buy books which we publish, at an average of $50 per order, subscribe to a newsletter at $60 a year, attend classes at an average of $300 per attendee, go to workshops at $50 a person, (or if they miss the workshop they may purchase a cassette tape of that program for $25). And, of course, many of our subscribers attend the industry trade show we sponsor where 250 exhibitors pay $1,000 a booth to meet that same *FOLIO* reader *FACE TO FACE*.

The reader isn't the only one being sold information. *FOLIO* sells its advertisers a wide choice of services as well. We maintain and market an industry DataBase, promote list rentals, publish a suppliers guide, publish a large

classified marketplace section, and have recently launched a direct response postcard service.

Although we haven't yet tried to sell *FOLIO* T-Shirts, we have sold several thousand "tote" bags imprinted with a logo that says "Magazines are My Bag" and we've recently offered subscribers a special coffee mug — imprinted with their name — and the legend "Publisher of the Year."

The lesson of *FOLIO* is obvious. We don't see ourselves as being just in the magazine business, but rather as an information resource serving the publishing market. *FOLIO* magazine is the nucleus of our services, but the profitability and surival of our business depends on these ancillary activities.

FOLIO is just one example. Any magazine that serves a business audience is much more than a magazine, it is a franchise for a specific market's information services. In business, more than anywhere else, the need to know and to be informed is a critical function, and the business magazine of the future must

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position itself at the heart of that need.

Now *FOLIO* is no more sophisticated than most of the business magazine publishers in the US. Perhaps we're more aggressive in pursuing ancillary activities, but that's because we know that the magazine by itself cannot sustain our business. If we didn't develop profitable ancillary revenues to serve our market, we could not remain in business.

In much the same way that consumer magazines were forced to look to the reader for higher prices per copy, the business press must look to the reader as a consumer of specialised information services. Nowhere is this more apparent than at McGraw-Hill; the billion dollar business magazine giant in the US.

McGraw-Hill, is a little larger than *FOLIO* but an aspect of their business will provide additional insight into the direction of the magazine of the future, as I see it.

Some time ago, the management of McGraw-Hill discovered an interesting fact. While they could sell subscriptions to their big, successful *Business Week* magazine, at $28 for 52 issues per year, (and, of course, also sell a great deal of advertising in that magazine), a small 8-page newsletter directed to just the right, tiny segment of the *Business Week* audience, could sell subscriptions for as much as $300 a year.

Think about that for a second . . . many businessmen are willing to pay $300 annually for a newsletter containing a fraction of the information which *Business Week* provides each year for just $28. That's more than 10 times as much for an 8 page newsletter than for a major, important, expensively produced magazine. You can imagine the return on investment of a newsletter when compared with that of the magazine.

Of course McGraw-Hill didn't drop its successful magazines to go into the newsletter business. Instead they intelligently developed a number of newsletters to serve those special interests that would support such information services. For those business people who need particular specific information in a condensed and timely format, price is not the determining factor. The more condensed some publishers can make their valuable information, the more they can charge for that information.

But newsletters are only a part of McGraw-Hill's information services. They logically branched out and became involved in trade shows, conferences, books and book clubs, monographs, directories, database publishing, even wire services to their specialised markets.

I believe that the future of the business press lies in these areas of growth. There's only so much revenue to be developed from a business magazine, but when it comes to selling other, information-oriented services to that same market segment, then the potential for profit grows expotentially.

I believe that the futu[re] the parallels, in many [...] that of the McGraw-Hi[ll ex]perience. As I menti[oned] earlier, consumer maga[zines] will as times goes on, beg[in to] fully exploit their core "readers". The real [...] services offered by B[etter] *Homes and Gardens*, cooking schools sponsored [by] *Bon Appetit Magazine*, [are] the fore-front of [this] development. So [as] publishers view their r[eaders] as consumers, the pot[ential] revenues from these an[cillary] activities will become as [im]portant, or even more [impor]tant, than that from sub[scrip]tions or even advertising

The age of custom-made magazines

THE magazine of the future will develop an entirely new revenue stream that no magazine today has yet realised. This revenue source promises to revolutionise the magazine as we know it today.

Before I descibe this source let me take a step back and talk for a minute about an unlikely analogy: the US automobile industry. Perhaps no other industry has spent more money trying to understand how to motivate consumers to buy a product that can cost one-half of a man's annual salary. No other industry spends as much marketing, not just advertising its products.

Today there are perhaps 60 different models of US automobiles. In modern times, there have never been fewer US models than there are today. Yet look at a parking lot in a crowded shopping center– no two cars look the same . . . it's easy to believe that every car there, is a completely different model.

Detroit literally manufactures each of their cars to match each individual customer's preferences. The buyer may begin by chosing between a Chevy Nova or a Ford Mustang, but the choice of model is a small part of buying a car. Once you select the basic model, the auto industry goes to great lengths to sell you hundreds of options to make that car fit your exact wants. Options such as colour, automatic transmission, air conditioning, stereo's, tyres, sunroofs, types of interior, the number of doors, type and size of engine. It may be a Ford Mustang to start with, but its a customised car when you're done. Not only have you personalised your car, you've also added thousands of dollars to its basic price.

The story isn't complete until we recognise how Detroit manages to mass produce 10 million cars a year, each to customer specifications. There's only one tool powerful enough to keep the whole process organised – our friend, the computer.

As the car you ordered comes down the assembly line computers coordinate all of your personal choices to bring hundreds of additional parts onto that car. Without the computer to track and schedule those individual preferences the entire process would be impossible. The computer makes individual specialisation a multi-billion dollar business in Detroit.

What does this story have to do with the future of magazines? If you haven't already guessed, its the potential for the custom magazine. A magazine, just like a car comes down an assembly line – a bindery line. Each section of the magazine is assembled, bound together and mailed. And more and more bindery lines are controlled by computers.

Of course, today, many sophisticated magazines have special advertising sections which already take advantage of this bindery line flexibility. The computer tells the bindery to put certain forms, containing special regional or demographic ads into only certain copies of the magazine.

Among dozens of other US publications, *Time* magazine offers literally hundreds of these regional and demographic editions to advertisers who seek market selectivity.

But the future of the magazine is not in these advertising editions alone, although they will continue to grow. The future lies in automobile – style *editorial*

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Joe Hanson

"options" – editorial options that every reader will be able to buy. The lessons of Detroit for computerised personalisation, when combined with the lessons of McGraw-Hill of the willingness of newsletter subscribers to pay for highly selective information will come together as never before.

Let's walk through an example of the "editorial option package." We'll use *Time* magazine again, as an example, and we'll talk about my subscription in January 1990. Come with me a decade into the future.

Time magazine in their subscription offer will provide me with a choice of more than 200 different **editorial** options I may buy with my *Time* subscription. I choose those which appeal to my personal interests. I select the expanded business coverage option for $16 extra per year, the gardening option for an additional $18, and the New York City entertainment option (a bargain at only $9 more per year.)

My copy of *Time* magazine will not look any different on the outside, but each week it will contain, in addition to the regular *Time* features those special editorial sections I've ordered. Similarly, my copy of *Time* will also contain special advertising that fit naturally with my editorial options. It's the "Joe Hanson" edition of *Time* magazine, in much the same way that it's a Joe Hanson edition of my General Motors Cadillac.

And it's not just *Time* magazine that will sell editorial options at substantial profit. Every magazine has special interests within its reader market and will be able to derive entirely new revenue streams.

The opportunity for large magazines to compete with smaller or regional publications is significant, but the opportunity to expand the entire magazine business is almost incomprehensible. The computer will turn a major expense area, editorial, into one of the most important profit centres because of bindery selectivity.

The computerised binding line that makes editorial options possible is a reality today. And not just for advertising editions.

The magazine of the future, with editorial tailored to each subscriber, is being tested today. There are at least 80,000 farmers in the US that receive it.

Farm Journal magazine recently announced that it was using the information it has, about each of its individual subscribers, to produce more than 300 editorially different editions of *Farm Journal*. Right now as you read, there could be a corn farmer in Kansas, at a 3,000 acre farm, reading a story in his personal issue of *Farm Journal*, about how the new tax laws in Kansas affect large farms. The only difference between the Kansas large Corn Farmer edition of *Farm Journal* and the magazine of the future is that the *Farm Journal* does not yet charge for its editorial flexibility, and, I believe, the magazine of the future will.

Almost every few days, for the past several years, I've been asked the questions, "How long will the magazine business continue to be healthy?" "Have we reached a peak?" "Are we going to return shortly to the valleys that represent difficult times for our industry?"

I'm convinced that the curve has not yet begun to plateau. I believe that despite short term adjustments to significant economic problems the magazine publishing business is entering into a new generation.

This new generation, the generation of the personal magazine, is in its infancy. The great years of magazine publishing are ahead of us.

Joe Hanson with Fourth Estate seminar sponsors Reg Birchfield and Ian Grant.

Magazine management seminar in session